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Politics this week

Jan 4th 2007
From The Economist print edition

Saddam Hussein, the former leader of Iraq, was executed by hanging. He had been convicted by an Iraqi court of the killings of 148 Shias from the town of Dujail in the 1980s. Iraqi authorities released official footage of the execution to prove that he was dead; but unofficial mobile-phone footage quickly surfaced showing guards taunting Saddam just before his death, further exacerbating ethnic tensions. See article

In a military campaign lasting barely a week, **Somalia's** previously weak transitional government, together with **Ethiopian** armed forces, routed the Islamist militias that had held sway over the capital, Mogadishu, and much of the south of the country since last summer. The victors, with the help of American naval forces, are now tracking down the remaining al-Qaeda operatives who were thought to be fighting with the Islamists. See article

After a year of relentless diplomatic pressure, the Sudanese government at last accepted a small United Nations force to operate alongside the existing African Union force in **Darfur**. See article

Gerald Ford was given a full state funeral in Washington, DC. The former American president, who held the office for fewer than 900 days in the 1970s, died on December 26th, aged 93. See article

Preparations were made for the swearing-in of America's **110th Congress**, and for Nancy Pelosi to become the first female speaker of the House of Representatives. The Democrats vowed to implement their agenda quickly. Plans include an increase in the minimum wage and the lifting of federal restrictions on stem-cell research. See article

In a written new-year message read out on state-controlled media, **Cuba's** invalid president, Fidel Castro, said he was recovering slowly from intestinal surgery last July, but admitted that it was likely to be “a long process”. Officials have denied reports that he is suffering from cancer or any other terminal illness. See article

Luiz Inácio Lula da Silva was sworn in for a second term as **Brazil's** president. He pledged to spur sluggish growth and tackle gang-related violence, which killed 19 people in Rio de Janeiro last week. See article

Romania and Bulgaria celebrated their entry into the European Union as its 26th and 27th members. **Slovenia** became the first eastern European country to join the euro area, as its 13th member. See article

Spain's hopes of peace in the Basque region were set back when it became clear that ETA, the Basque separatist group, was responsible for a van bombing at Madrid airport that killed two people. See article

Eight bombs rocked Bangkok, killing three people. **Thailand's** military-backed government hinted that supporters of Thaksin Shinawatra, the former prime minister who was deposed last autumn, may have been responsible. Mr Thaksin denied any involvement. See article

Bangladesh's main opposition party said it would boycott a general election, scheduled for January 22nd, claiming the poll would be rigged. The Awami League only recently agreed to take part in the ballot after it mounted a series of strikes and protests to push for electoral reform.

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Business this week

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François Pinault said he was “keeping his options open” about making a bid for **Suez**, a French utility company. The statement from the retail and luxury-goods tycoon (made through his holding company) came after France's stockmarket regulator asked him to spell out his intentions in response to speculation in the media. Suez, which is mired in a politically controversial merger attempt with Gaz de France, sought further clarification of Mr Pinault's remarks.

Apple Computer filed its earnings, which had been delayed because of restatements for **stock-option grants**. The company has completed a review of its procedures for granting such options and expressed its confidence in its chief executive, Steve Jobs.

Home Depot announced that Robert Nardelli was stepping down as its boss. Critics of the retailer's penchant for awarding its executives generous pay while the company lost ground to its competitors were not placated by the $210m severance package presented to Mr Nardelli. See article

Speculation increased about the outcome of manoeuvring to take control of **Hutch**. India's fourth-largest mobile-phone operator is co-owned by Hong Kong's **Hutchison Telecom**, which has a 67% stake, and India's **Essar Group**, which controls the remainder. Both companies are said to be mulling various possibilities including a sale, estimated at up to $17 billion.

A plan to develop a Franco-German internet search engine to rival Google was reportedly scrapped. **Quaero** was included in a list of initiatives designed to challenge America's dominance of the internet trumpeted by France's Jacques Chirac. However, German officials grumbled about the cost and have indicated they will produce their own, scaled-down search engine.

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UN

A chance for a safer world

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How the big powers could make better use of the United Nations

AFP

BAN KI-MOON, the little-known South Korean who took over command of the United Nations this week from Kofi Annan, lobbied hard to get the job. One wonders why. The secretary-general earns a good salary and gets a pleasant apartment in Manhattan. But the UN is derided by much of the media as divided, bloated, corrupt and impotent. It looks incapable of dealing with the daunting problems of today's world. These include the disintegration of Iraq, stalemate in Palestine, slaughter in Sudan, a new war in the Horn of Africa, global warming and a rush by the likes of Iran and North Korea to acquire nuclear weapons. The secretary-general is the UN's public face and takes the rap for its failings. But he is the servant of an often divided Security Council and has limited power of his own. In many respects this is the job from hell.

In 2005 Mr Annan tried to reform the UN and was thwarted (see article). It would nonetheless be a mistake to give up on the organisation. There are two reasons for this. One is that the UN already does a far better job than it is given credit for. The second reason is more surprising. Although the world looks to be in a state of dangerous disarray, some aspects of today's global politics make this a good moment for the big powers to work more closely together. If they seize the chance they may be able to breathe fresh vitality into the world body and restore some of the high hopes of its founding charter.

Where it fails, and where it works

To say that the UN is doing better than people think is not to say that it is perfect. Far from it. For the past several years, for example, a vast and systematic atrocity has been taking place in Darfur, the western province of Sudan. Some 300,000 civilians have died and more than 2m have been put to flight by government-inspired militias. The United States has called it genocide, and the Security Council has passed solemn resolutions. But the council is divided and an oil-dependent China has so far been unwilling to allow forceful intervention in Sudan's sovereign affairs. So the murder continues, as though the world had learned nothing from its shameful failure to stop the Rwandan genocide of 1994.

The inaction in Darfur is deplorable. But look closer at Sudan. In the south, UN forces have since 2005 been keeping the peace after the end of a separate and even bloodier civil war that had lasted for decades. In Sudan's stricken areas, and elsewhere in Africa, the UN's World Food Programme feeds

millions. Indeed, around the world as a whole, some 30m people in 50 countries are reckoned to depend on UN relief agencies for their very survival. In Congo one of the largest UN forces ever assembled has just overseen the transition to free elections in another vast country emerging from decades of war. But that is just one of 18 different missions, in which about 100,000 UN peacekeepers are deployed.

These numbers tell you that although a divided Security Council can paralyse the UN, as before the Iraq invasion of 2003 and over Darfur now, the council is not always divided. Moreover—and this is the surprising bit of the argument—there is reason to hope that the council's five veto-wielding permanent members are entering a period during which they may see the point of whittling away more of their differences.

A scan of dire headlines might undermine this optimism, but a little perspective supports it. Compared with most of the 20th century, today's big powers have few head-on conflicts. America no longer confronts a Soviet Union. Russia is newly assertive, but is focused mainly on its own near-abroad. Rising China may threaten America's future as sole superpower, but the two countries' economies are interlocked and both need good relations. There is competition, of course, but the Chinese push into Africa, say, is a commercial affair rather than a collision of empires of the sort that took place before the first world war, when European powers scrambled for colonies.

A new type of world disorder

Today's disorder stems not so much from conflicts between the big powers as from other problems all say they want to solve: failed states, terrorism, proliferation and the chaotic Middle East. Their priorities and tactics differ, but that still leaves room to co-operate. For example, it has taken an age to sign up Russia and China for action against Iran's nuclear programme. But now they have signed: the Security Council is imposing sanctions on Iran for enriching uranium. If Iran carries on regardless, the council may once again divide between those who will and those who won't take military action. But an Iraq-entangled America shows little appetite for new battles. And although the superpower is often the UN's harshest critic, it has come again to see the point of turning to the UN for help with problems—be they keeping the peace in Lebanon or saving lives in Darfur—it finds hard to solve alone.

If everything in the UN's garden is lovely, what is the case for reforming it? Part of the answer is that the organisation needs to run faster just to stay in the same place. At present it enjoys a good deal of legitimacy. But at some point that will fade unless the Security Council takes at least Japan, India, Brazil, Germany and an African country into permanent membership, so that it reflects today's world rather than the one of 1945. It also needs some military resources of its own if it is to cope with the ever-growing demand for peacekeeping. Right now a small battle-ready force, raised by the UN itself and not by any Western or neighbouring government, is exactly what is needed in war-torn Somalia (see article).

In the meantime, the permanent five could make the world safer and more orderly by showing a greater willingness to work together using the existing structure. They are not going to turn the UN into a world government, as some Utopians would like. America in particular will not consent to being tied down like Gulliver, especially where it thinks its security is at issue. But at a moment when their rivalries are small, yet most are anxious about the same range of transnational threats, all the big powers ought to see the benefit of making better use of the potential for joint, lawful international action that the UN uniquely provides. If not now, when?

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Somalia

Thank you and goodbye

Jan 4th 2007
From The Economist print edition

Ethiopia's invasion of Somalia may have beneficial results—provided it gets out fast

AP

Get article background

IT HAS been the mother of all turnarounds for Somalia's Islamists. Just two weeks ago they ruled the capital, Mogadishu, and most of the south of the country. They had cooped up their rivals for power, the apparently feeble transitional government, in the dusty, up-country town of Baidoa; there was even talk of creating a new Islamist super-state in the Horn of Africa. Now those plans lie in ruins. The Islamists' forces have been humiliated on the battlefield, their soldiers driven back into the bush and desert from where many of them came, their political power broken. And all this at the hands of that very same feeble transitional government—with an awful lot of help from the regional and world superpowers, Ethiopia and the United States (see article).

Nobody should be too sorry to see the back of the hardliners in the Union of Islamic Courts, as the Islamists styled themselves. They came to power last summer after vanquishing American-backed warlords in Mogadishu. The Islamists included relative moderates in their ranks, and imposed welcome order, but they also contained a significant extremist element, bent on imposing the full rigours of a Taliban-style government on Somalia and as much of the rest of the region as possible. Egged on by Osama bin Laden, some had been happily declaring *jihad* against their various regional enemies. One of the reasons for American involvement is that among the al-Qaeda fighters thought to have been with the Islamists are three of those wanted for their alleged part in the 1998 bombings of American embassies in Kenya and Tanzania.

Ethiopia's intervention was decisive in the defeat of the Islamists; one of Africa's largest armies deployed its full range of tanks and warplanes against opponents equipped mainly with small arms. Was this justified? The legality of the invasion is dubious, to say the least. But the Islamists had posed a threat to Ethiopia and laid claim to a chunk of its territory. Ethiopia says it was merely giving military support to the legitimate, UN-backed government in Baidoa that had been put together after long negotiations only two years ago. At any rate, the triumph of the Ethiopian-backed government may be preferable to the creeping Talibanisation of Somalia.

The spectre of insurgency

All the same, Ethiopia had better withdraw soon. The fact that the government of Mohamed Gedi owes its survival to a neighbour's army is its greatest weakness. Most Somalis have reason to see Ethiopia as an old enemy; it has invaded their country several times before. If it stays it will come quickly to be seen as a hostile foreign occupier, thus encouraging an Iraq-style insurgency to arise from the ashes of the Islamists' defeat. Its presence may also draw its regional rival, Eritrea, even deeper into a proxy war.

As Ethiopia leaves, however, others will have to guarantee the authority of the new government. These cannot include the forces of Somalia's immediate neighbours, all of which are viewed with suspicion by Somalis, but should be other African or Muslim states. African countries have so far failed miserably to bring any sort of stability to Somalia. Fast action now could redeem some of that failure. If the new government can establish a degree of peace, freedom and normality in Mogadishu, it will have a chance to prosper.

But that will also require the new government to talk to the moderate Islamists among its defeated enemy, and ultimately to share some power with them. America and the West ought to support and bankroll this process. As in Afghanistan, America has backed a proxy force, Ethiopia, to nail its enemies. But to prevent a return of the Islamists—as in Afghanistan—Somalia will have to be rebuilt mainly by a legitimate government of its own, however much help it receives from outsiders.

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Saddam Hussein

Hanging the dictator

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The repulsive end of a repulsive man

AFP

A BOTCHED war, a botched trial and now a botched execution: Iraq obstinately refuses to behave in accordance with the script its American conquerors have written for it. Bringing the loathsome Saddam Hussein to justice should have been a propaganda victory for the United States. But his execution on December 30th looked less like the meting out of justice than like one of the sordid snuff videos circulated on the internet by al-Qaeda. Had the Americans hanged him themselves, the condemned man might have been treated with a modicum of dignity. His Iraqi executioners had other ideas. Some preferred to tease and taunt him to his death, and then continued to taunt his hanging corpse. In the end it was he who showed dignity—together with defiance and an utter lack of remorse. And it was his executioners who turned what could have been a moment of catharsis for Iraqis into something that looked primitively cruel, more likely to deepen than to heal Iraq's lethal sectarian divisions.

It is only natural for decent people around the world to be repelled by such an execution. But neither the bungled hanging nor the many inadequacies of the trial that preceded it should obscure the fact that Saddam was a criminal and murderer on an epic scale. Although many people will condemn his hanging as “victors’ justice”, this was no miscarriage of justice in the normal sense of the phrase. There can be no doubt that the former dictator was guilty of heinous crimes against humanity, including the slaughter of scores if not hundreds of thousands of Iraq's own Kurds and Shias (see article). The megalomaniac who styled himself after Nebuchadnezzar and Saladin also launched two wars of aggression. The invasion of Iran consumed more than a million lives; the invasion of Kuwait set in motion a chain of events that led ultimately to his own country's occupation by America.

The tribunal that sentenced him was indeed imperfect. The Iraqi judges squandered the opportunity to show a country emerging from dictatorship how due process ought to work. All the same, theirs was not a kangaroo court. The judges examined evidence and heard the case for the defence. They did not send an innocent man to the gallows. As for the sentence itself, many people believe, as does *The Economist*, that capital punishment is wrong in principle. This view is not, however, universal even in the rich and peaceful societies of the West. In Iraq, whose people have experienced decades of extreme political violence, a principled objection to capital punishment strikes many as bizarre. The millions who lost loved ones at the dictator's hands expected him to pay with his life, and would have felt cheated if he hadn't. It was not victors' justice but victims' justice that condemned him to hang.

Disposing of a man is easier than disposing of a myth. In life Saddam had admirers and helpers even

during his worst excesses. The Americans and the French supported him against revolutionary Iran. The Arab masses loved him for lobbing missiles at Tel Aviv. He was fawned over at different times by Donald Rumsfeld and by George Galloway, a left-wing British MP. The danger now is that the gloating of his Shia executioners will make him into a martyr for the Sunni cause. That would be a travesty. Saddam's legacy was blood and misery for all. It is a pity he was executed before the full extent of his crimes could be investigated and revealed in court. Iraq's government could make amends for the mistake of his over-hasty execution by making sure those investigations continue.

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America's new Congress

Bush-baiting

Jan 4th 2007
From The Economist print edition

The president is in for a difficult two years, but all is not yet lost

AP

Get article background

ON JANUARY 4th Nancy Pelosi becomes the first woman speaker of the House of Representatives, and the painful last phase of George Bush's presidency will begin. As control of both chambers of Congress passes to the recently elected Democrats, Mr Bush will become not just a lame duck but also a crippled one, able to act freely only in foreign and defence policy—which is where, thanks to his blunders in Iraq, his most intractable problems lie.

Ms Pelosi is preparing to torment the president with some subtlety. In her first 100 hours in the job, she aims to use her 31-seat majority in the House to pass a raft of measures which (assuming they make it through the Senate, where the Democrats have only a knife-edge 51 seats to 49) Mr Bush will cordially dislike, but will find it tricky to veto. These include a substantial hike in the minimum wage, the promotion of stem-cell research (anathema to Mr Bush and the Christian right) and the cutting of subsidies to the oil industry (see article). Ms Pelosi also promises to tighten up the rules on pork-barrel politicking—a humiliating reproach to the Republicans, on whose watch congressional sleaze has notoriously worsened.

A blockage in the system

Mr Bush will probably have to swallow all this and more in the shape of, for instance, blocked trade deals. This is not just because he knows that the Democrats' programme is modest and popular, but also because he now needs the Democrats' co-operation if he is to amass any sort of domestic-policy legacy in the 746 days he will have left when Ms Pelosi takes up the gavel.

One cherished, and praiseworthy, goal of the president's is to achieve a just and economically literate solution to the problem of illegal immigration in America. The current system makes criminals of some 12m people who only want to work hard and on whose efforts large parts of the economy now depend. Mr Bush would also like to find a way to ensure that the tax cuts he enacted in his first years in office do not expire entirely, as they are currently scheduled to do, in 2010. And, most necessary of all, Mr Bush wants to make some progress towards tackling America's gathering health-care crisis. His attempts to

rein in costs that are soaring as the population ages and medical technology gets ever more expensive have so far been badly botched.

None of this can be achieved without the Democrats. So Iraq is, potentially, a triple problem for Mr Bush as his presidency moves into its final quarter. First, it is the largest and hardest issue he has to deal with, consuming most of his attention and bringing down most of the criticism heaped upon him. Second, presidents saddled with hostile congresses often try to salvage their reputations abroad; but the ramifications around the world of America's slow defeat in Iraq make it hard for Mr Bush to do that.

Third, Iraq threatens to undercut Mr Bush's domestic agenda too. Within the next few days Mr Bush, who once called himself “the decider”, will have to make the toughest decision of his presidency. He has promised to unveil a new plan for Iraq. It will be his response not just to last month's Iraq Study Group report, which advocated the withdrawal of combat troops from Iraq by early next year, but also to the evident truth that the current plan is not working.

The Democrats, almost to a man, favour speedy withdrawal, and won last November's congressional election in part on that basis. Many Republicans, most of the Washington foreign-policy establishment and allegedly the president's own father feel the same way. Mr Bush, though, seems all but certain to opt for the policy of “surge”—a sharp, though temporary, increase in troop levels. This will place him on a collision course with the Democrats—who oppose the idea on principle and who, sometime next month, will be asked to vote on yet another supplemental budget for Iraq—this one of anything from $100 billion to $170 billion. And if Iraq policy descends, as it very well may, into a bitter wrangle between the executive and the legislature, the chances of bipartisan progress on domestic policy will look all the slimmer.

It all sounds very bleak for Mr Bush; yet there are still ways in which he could redeem some of his reputation. America remains the world's most powerful country; and Mr Bush could use some of that power to tackle some of the world's most pressing problems, such as climate change and terrorism. With new leaders in Germany, Japan, Canada and Italy, and Tony Blair and Jacques Chirac both on their way out, America's president is about to become the most experienced leader among the G7 countries. But bogged down in Iraq, and shorn of congressional support, Mr Bush will have to find new reserves of statesmanship to make use of these advantages.

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Global markets

Bull session

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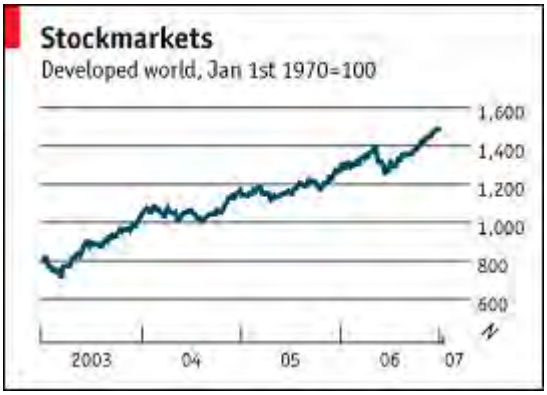
From The Economist print edition

Why investors are optimistic, and what they ought to worry about



INVESTORS have entered this year in a buoyant mood. After global equities returned 18% in 2006, many stockmarkets have started 2007 either at record highs or close to them.

Two factors have fuelled investors' optimism. The first is the slightly vague notion of liquidity (see article). There is no universally agreed definition of this concept; best to say you know it when you see it. What is clear is that there is a lot of it about. Investors have felt sufficiently flush with cash to buy high-risk assets, such as junk bonds or commodity futures. Credit has been plentiful for those who need to borrow.

The second factor is corporate profits, which have risen faster and for longer than anyone expected a few years ago. Companies have used their cash to buy back shares, supporting the stockmarket, and the high level of profitability has reduced defaults, helping bonds.

The bullish trends are clearest in the private-equity industry, which has some $300 billion of cash ready to spend, according to Morgan Stanley. Liquidity explains why this business has so much cash; and companies' fat profits (along with low interest rates) explain why private-equity houses are so keen to buy them.

So is the world experiencing another bubble, akin to the one that popped so spectacularly in 2000? Not yet. The four-year-old bull market has been unusual, in that share prices have been pushed higher by rising profits rather than higher ratings. As a result, many analysts think shares are still undervalued, especially relative to government bonds. Nor has the bull market been accompanied by any mania among retail investors, such as the “day trading” fad of the late 1990s.

It is thus not difficult to imagine that financial markets can stay buoyant for a while yet. Investors will be reluctant to sell shares if they believe takeover bids are imminent, especially when the returns on government and corporate bonds are so low by historical standards.

Bulls will also take heart from the ease with which markets have shrugged off so many worries in recent years—high oil prices, the American current-account deficit, terrorism. Those who sold in haste have repented at leisure. Figures over Christmas, showing that home sales were picking up, have helped investors put aside the most recent cause for concern, that the American economy might be hit by a collapse in the housing market. January's rebound in a widely watched survey of manufacturers will have the same effect. And even if the economy falters, investors believe they have a “get out of jail free” card in the Federal Reserve which, having raised rates all the way from 1% to 5.25%, now has scope for a cut.

Reasons to be careful: one, two, three

However, the moment when investors are most complacent is also the moment of greatest danger. Merrill Lynch's survey of global fund managers, conducted in December, showed that investors were expecting slightly slower growth in GDP and profits this year, but were not worried about either recession or inflation. Most therefore had an above-average weighting of shares in their portfolios. Meanwhile, a

poll of Wall Street strategists found that not a single pundit was predicting that American shares would fall this year. And measures of volatility (for shares, bonds or currencies) have been strikingly low.

This sangfroid could be tested by several threats. First, the share of corporate profits in American GDP is already at its highest since 1950. Analysts are blithely assuming they can keep rising. Perhaps globalisation has shifted the balance of power firmly in favour of the corporate sector and away from labour. But workers have votes and may demand the balance be shifted back, either through taxes or trade barriers.

Second, the American economy may not follow the benign path that the consensus assumes. The housing market's downswing may not yet be over; and its weakness could prompt consumers to increase their ultra-low saving rates, cutting into demand. Alternatively, growth and inflation may well turn out to be strong enough to persuade the Fed to leave rates unchanged.

Finally, there are the credit markets. The creation of new instruments, such as complicated derivatives, probably makes the financial system stronger in the long run, by ensuring risk is better priced and more widely distributed. But some of these instruments have yet to be tested by a severe recession or a big corporate default. If most people have made the same bet (that risky assets will outperform and that volatility will stay low), there could be an almighty scramble for the exits when the trend changes.

Bull markets are remarkably resilient. But it would be surprising if one of those threats did not cause confidence to wobble at some stage in 2007.

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On Allen Carr and Easyway, Russia, Augusto Pinochet, Sudan, language

Jan 4th 2007
From The Economist print edition

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Stopping smoking

SIR – Thank you for giving Allen Carr, the famous stop-smoking guru who founded the Easyway method, the honour of a generally excellent obituary (December 9th). The article, however, contained a very important error. You say "Since he [Allen Carr] had never submitted Easyway to independent trials or evaluation, it was impossible to tell how effective it was." In fact Easyway has been submitted to independent trials and evaluation and the Allen Carr organisation is currently pursuing legal action against Action on Smoking and Health (ASH) for publishing claims similar to yours.

I draw your attention to two such studies conducted by eminent scientists expert in the field and published in peer-reviewed journals. The first is "Long-term success of short smoking-cessation seminars supported by occupational health care" by H. Moshammer and M. Neuberger, which appeared in *Addictive Behaviors* in 2006. The second is "Smoking cessation at the workplace: 1 year success of short seminars" by H.P. Hutter et al, which was published by *International Archives of Occupational Environmental Health* in 2005.

These wholly independent studies—the authors have never received any remuneration of any kind from Allen Carr or his organisation—support the view that the success rate for the Allen Carr method is far superior to that of any other method, in particular to that claimed for so-called Nicotine Replacement Therapy, ie, nicotine gums, patches, etc, and to that claimed for QUIT and the National Health Service's stop-smoking clinics, which use NRT. That the government continues to ignore the Allen Carr method and pump hundreds of millions of pounds of taxpayers' money into the pockets of the pharmaceutical industry on the absurd ground that giving nicotine to nicotine addicts can help cure them of nicotine addiction is a national scandal. Allen Carr exposed this in his final work, SCANDAL, which is available as a free download from our website.

Robin Hayley
Managing director, Allen Carr's Easyway International
London

Pointing fingers

SIR – When reporting the Litvinenko affair you summed up the politics of Russia as "cynical and self-interested" and suggested that most Russians would not believe the contrasting situation that exists in Britain, where the courts and not the government decides what is law ("Murder most opaque", December 16th). Soon after, however, you reported Tony Blair's decision to drop an investigation into bribery allegations involving BAE and Saudi officials because it would have led to ill feelings between Britain and Saudi Arabia, a key ally ("Bribe Britannia", December 23rd). Perhaps the Russians should be forgiven their cynicism, if nothing else.

Michael Troughton
London

Discussing Pinochet's legacy

SIR – You argue that the coup in Chile led by Augusto Pinochet in 1973 was not justified because the Marxist government of Salvador Allende would "probably have imploded" ("The passing of a tyrant", December 16th). Really? Fidel Castro's experiment hasn't imploded after 47 years. Interestingly, your opinion at the time of the coup was strikingly different. You described the chaos, the danger of civil war and how the Allende government had ridden "roughshod over congress and the courts" and you concluded the army "had to move in the end because all constitutional means had failed to restrain a government that was behaving unconstitutionally" ("The end of Allende", September 15th 1973). Of course, human-rights abuses should be condemned, but wouldn't it be more honest to admit a large proportion of the 3,000 deaths occurred inevitably during and around the coup you supported?

Lord Lamont
House of Lords
London

SIR – May I add a footnote to your leader (which was a model of balanced analysis) on General Pinochet. Several obituaries (not yours) have credited him with having voluntarily relinquished power when he lost the October 1988 referendum. The truth—now well established—is that a few days before the referendum, when it became clear he was going to lose, Pinochet tried to stage a coup to prevent it from taking place. America's State Department learnt about this, all but denounced it publicly and summoned the Chilean ambassador in Washington, DC, to express its concern. Apparently this strong intervention was instrumental in frustrating Pinochet's designs to perpetuate himself in power.

Carlos Fortin
Assistant secretary-general
United Nations, 1998-2005
Brighton, West Sussex

Sudan's situation

SIR – Your report on Sudan mentioned that the national government "still feels no obligation to share its wealth with poorer peripheral provinces" ("Glittering towers in a war zone", December 9th). However, the IMF has noted both that Sudan has doubled its spending on the poor recently and that the national budget has slipped into deficit because of transfers to the south and other underdeveloped regions.

Moreover, rising non-oil exports and strong private investment in agriculture and other non-oil tradable sectors contradict your observation that Sudan has the "classic symptoms of an overheating petrodollar economy". Yes, mishaps occurred when Sudanese oilfields were developed: it is a messy, unpredictable business after all. Nevertheless, the mishaps will be rectified, and future incidents avoided, by the reinvigorated National Petroleum Commission, which places sustainable, equitable and transparent oil development at its core. Contrary to your report, experts from the Sudan People's Liberation Movement also meet the ministries of finance and energy monthly to study oil production and revenue-sharing data.

Meanwhile, the World Food Programme reports that the crude mortality rate fell for the third year in Darfur during 2006, and the International Committee of the Red Cross recently stopped distributing food aid in Darfur because people are harvesting much more than previously. These developments show the plain truth: around 70% of Darfur is secure, with bustling local markets, streets and farms and people generally getting on with their lives. We Sudanese, sadly, have grown used to prophets of doom focusing just on what divides us rather than unites us and we will continue to confound predictions of looming disaster.

Dr Ghazi Salahuddin Atabani
Parliamentary party leader
National Congress Party
Omdurman, Sudan

Language lesson

SIR – With regard to your leader lamenting the willingness of the British to learn Johnny Foreigner's native tongue, perhaps you could turn your attention to persuading Britons to master their own language first ("God's worst linguists", December 16th). I recently received a marketing leaflet advising me: "Dont wait for new year sales when there in stock now".

Jason Smith

London

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The United Nations

Mission impossible?

Jan 4th 2007
From The Economist print edition

AFP

As Ban Ki-moon takes charge at the United Nations, we look at the prospects for this troubled body and for its peacekeeping efforts round the world

ANY new job brings challenges: but none quite like those facing Ban Ki-moon, the quiet Korean who has just become the UN's new secretary-general. Rising nuclear demons in Iran and North Korea, a haemorrhaging wound in Darfur, unending violence in the Middle East, looming environmental disaster, escalating international terrorism, the proliferation of weapons of mass destruction, the spread of HIV/AIDS. And then there are more parochial concerns, such as the largely unfinished business of the most sweeping attempt at reform in the UN's history. That effort was started by Kofi Annan, who stepped down this week after ten turbulent years at the helm.

Mr Ban now picks up the baton. As a member of a “group without a church”—a Christian organisation that emerged in Japan in the early 20th century, whose adherents make the Gospel a source of inspiration for their private and public life—the UN's first Asian secretary-general in 35 years has described himself as “a man on a mission”, keen to restore trust between member states and the secretariat, between rich and poor countries, and in the discredited organisation itself. He hoped, he joked to journalists last month, that this would not prove a “Mission Impossible”. The world will hope so, too.

Mr Ban says he wants to concentrate on the goals already set for the UN, rather than find “new frontiers to conquer”. That is wise, but frustrating, because the UN's biggest problem is also its most intractable. It lies in the all-powerful Security Council or, more precisely, with its five permanent members. The UN's failure to stop the atrocities in Darfur or the nuclear posturing of Iran and North Korea has stemmed largely from the inability of the so-called P5 to agree on what should be done. If Mr Ban could simply conjure away the P5's extraordinary powers and privileges, which allow any one of them to paralyse the will of the rest of the world, everything, it seems, could be much easier.

When the UN was created in 1945, its founder-nations—the four main victors of the second world war, America, Britain, China and Russia, plus France—allocated to themselves the only five permanent seats, with veto powers, on what was then an 11-seat Security Council. The other members, all elected by the General Assembly, held two-year non-renewable seats without a veto. Since then, the number of the UN's member states has almost quadrupled from 51 to 192, two-thirds of them in the developing world.

Yet apart from the addition of four more non-permanent seats in 1965, membership of the Security Council, the only UN body whose decisions are binding, has remained unchanged. The system is not only undemocratic, anachronistic and unfair, but also—as Paul Kennedy, professor of history at Yale, suggests in his new book, “The Parliament of Man”—outrageous. Yet it cannot be changed without inviting a veto from one of the very nations whose powers might be diminished.

Change might well be unwise, too. As Mr Kennedy notes, powerful nations will always be tempted to go their own way. The League of Nations, set up between the two world wars, failed precisely because it was too democratic, too liberal, and toothless. The United States was never a member. Germany and Japan pulled out in 1933, Italy four years later. A different system had to be devised if the potentially isolationist great powers of the post-1945 world were to be kept inside a new world body.

The veto, which America and Russia insisted on as the quid pro quo for their membership of the UN, allows any one of the P5 to block any action brought before the Security Council that it deems contrary to its—or its friends'—interests, without needing to resort to force. If, on the other hand, a country finds itself blocked by a veto (or threatened veto), it can still decide to go it alone, as America did over the invasion of Iraq. Far from being a failure of the UN system, Mr Kennedy argues, this should be seen as the successful operation of a safety valve. Much better to have an obstructionist America on board than a furious one walking out.

Without American involvement the UN would not amount to much, as successive secretary-generals have recognised. Before taking up his new post, Mr Ban made it clear that one of his first tasks would be to forge closer relations with the United States. That pledge is an indication of how poisonous they had become under his predecessor.

Restraining the mighty

The low point came when Washington, ever suspicious of the UN's desire to restrain it, reacted furiously to Mr Annan's purported failure to deliver UN backing for the Iraq war—not in fact his own doing, but the result of divisions on the Security Council. There followed the $64 billion oil-for-food scandal, and reports of UN peacekeepers sexually abusing the people they had been sent to protect. Congress and the American press had a field day, vying with one another to see how much blame they could dump at Mr Annan's door. The arrival of John Bolton as America's ambassador to the UN in August 2005 did not help matters; the two men never got on.

Mr Annan was never in any doubt about the importance of strong American leadership, without which, he said, he saw “no hope of a peaceful and stable future for humanity in this century”. At the same time, he insisted, no nation, however powerful, could hope to tackle today's increasingly global threats and challenges alone. Nor—as he declared pointedly in one of many valedictory speeches last month—could a nation “make itself secure by seeking supremacy over all others”. Historically, America had been in the vanguard of the global human-rights movement, Mr Annan noted; but that lead could be maintained only if America remained “true to its principles in the struggle against terror”.

Mr Ban was asked what he thought of such undiplomatic sideswipes at the Bush administration. He replied firmly that they represented Mr Annan's “personal assessment and insight”. South Koreans are used to that sort of thing from Mr Ban; back home, the former diplomat's tendency to duck awkward questions won him the nickname “the slippery eel”.

But he is in an awkward spot. He owes his election as much to the backing of America and China as to his own superbly organised campaign, and dare not offend either of them. At the same time, Mr Ban knows that he cannot be seen to be too cosy with the American superpower. Mr Annan, who also started out with American backing, soon showed his independence. Mr Ban could do the same—especially if, as he claims, he wants to win the trust of the increasingly assertive and obstreperous group of developing countries known as the G77.

For many years after it was set up, in 1964, to represent the interests on trade and development of 77 poor countries, this group was regarded as a fairly negligible force, unable to agree on anything other than more aid and plumper trade concessions. It is now much bigger—131 countries plus China—and bolder, heartened by the growing oil wealth of some of its members and by deepening divisions, on matters ranging from Kyoto to Iraq, between America and its European partners. The abrasive Mr Bolton, in his 16-month stint at the UN, probably did more than any other single factor to encourage the G77 to get its act together and resist the United States.

Some see the gulf between rich and poor countries as the single most important issue confronting the UN. It is paralysing vital proliferation talks and blocking badly needed reforms. The G77 now sees everything through the distorting lens of the North-South divide. UN management reform? An attempt by rich white countries to gain even more influence over a secretariat already dominated by the North. Greater powers for the secretary-general? A bid to reduce his accountability to the General Assembly, one of the few UN bodies where the developing countries have a controlling voice. The replacement of the assembly's principle of “one country, one vote” by a system of weighted voting based on the size of a country's contributions to the UN? Another attempt at a power-grab by the North. The newly adopted “responsibility to protect” victims of genocide and other atrocities? Hypocritical northerners claiming the right to meddle in the domestic affairs of the South. Even proposals to expand Security Council membership to include more developing countries, which might have been expected to attract G77 support, are opposed on the ground that these would simply strengthen a body that, whatever happens, will remain dominated by four white veto-wielding northerners, plus China.

AFP

The quiet, but perhaps surprising, Ban

Kofi's legacy

Will Mr Ban, who hails from what is now the world's tenth biggest economy (in nominal terms), be able to win the co-operation of the G77 any better than his Ghanaian-born predecessor? Many doubt it. But at least he is making the right noises, announcing that his first foreign trip will be to attend the African Union summit in Addis Ababa later this month, and promising to make the Millennium Development Goals one of his top priorities.

These goals, adopted in 2000 and regarded by Mr Annan as his proudest legacy, commit world leaders to halving poverty, slashing mortality and illiteracy rates and raising aid levels to 0.7% of GDP by 2015. But as Mr Annan himself has admitted, he leaves the UN with the job “far from done”. Although some encouraging progress has been made, notably on debt relief and HIV/AIDS, the world was “not on track”, he said, to meet many other goals. In Africa, for example, poverty has actually risen over the past decade.

Much else, too, remained undone or unfinished on Mr Annan's watch. The long-awaited reform of the Security Council has been pushed once again onto the back burner. The new Human Rights Council is almost as ineffectual as its discredited predecessor, and is equally stuffed with flagrant human-rights violators. Under Mr Annan, the UN proclaimed a new high-minded “responsibility to protect”; but in Darfur the raping and killing continue unabated. The search for a definition of terrorism has been abandoned; management reform has been blocked. But Mr Annan is not solely, or even chiefly, responsible for these failures. As Mr Bolton himself conceded before stepping down last month, “While it is easy to blame the UN as an institution for some of the problems we confront today, we must recognise that ultimately it is member states that must take action and therefore bear the responsibility.”

In some areas Mr Annan notched up notable achievements. Thanks to an overhaul of the organisation's department of humanitarian affairs and much better co-ordination with NGOs in the field, the UN's once shambolic relief operations are now regarded as second to none. Around 30m people in some 50 countries currently depend on its services for survival. In March a new $500m central emergency relief fund was launched to deliver assistance within hours, rather than months, of an emergency. Another $250m fund, administered by the UN's new intergovernmental Peacebuilding Commission, has been set

up to help finance reconstruction in countries emerging from conflict. Sierra Leone and Burundi have been designated as the first two beneficiaries. In return, they will have to produce evidence of good governance.

Peacekeeping, which is not even mentioned in the UN Charter, is another of the organisation's recent success stories. The explosion of civil wars and of ethnic and religious violence at the end of the cold war caught the UN by surprise. It had no standing army, no effective military staff, and very little peacekeeping experience. What troops it managed to muster, mostly from developing countries, were often poorly trained and badly equipped. Peacekeeping mandates from the Security Council tended to be far too restrictive both in scope and numbers. Some terrible mistakes were made: the UN's failure to stop the slaughter in Rwanda and the massacre in Srebrenica continues to haunt it. But over the past five years or so there has been a marked improvement.

A 2005 Rand Corporation study of American and UN peacekeeping operations concluded that the blue-helmet missions were not only cheaper, but had a higher success rate and enjoyed greater international legitimacy. Another Canadian study attributed the dramatic decline in the number of conflicts and battle deaths over the past decade to the “huge increase” in preventive diplomacy and peacekeeping over the same period, “for the most part authorised and mounted by the UN”. Never has the demand for the organisation's peacekeeping services been so great (see article). As the UN's former head of peacekeeping, Mr Annan had a lot of experience in the field. Mr Ban has none.

Indeed, the more people compare the UN's new secretary-general with his predecessor, the glummer they tend to become. Mr Ban is said to be bland, given to platitudes, lacking charisma. Honest, intelligent and diligent he may be (his only hobby is said to be his work), but many fear he is unlikely to provide the strong, inspiring leadership the UN so badly needs. Some even wonder whether America deliberately chose a weak candidate in order to undermine an organisation with which it has always had problems. But the inscrutable Mr Ban replies that, in Asia, a smiling face often hides an inner strength. He could surprise everyone.

Almost since its inception, the UN has been charged with failing to live up to its original high ideals. But big changes in world governance seem possible only after great global upheavals. At other times, the world has to be content with small incremental steps. The UN's new secretary-general, eager to find consensus, might be rather good at those.

Gladwyn Jebb, the British negotiator at the UN's founding conference and later its first (acting) secretary-general, reckoned that its founding fathers had simply aimed too high for “this wicked world”. But as Dag Hammerskjöld, the organisation's third secretary-general, wisely noted: “The UN was not created to take humanity to heaven, but to save it from hell.”

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Peacekeeping

Call the blue helmets

Jan 4th 2007
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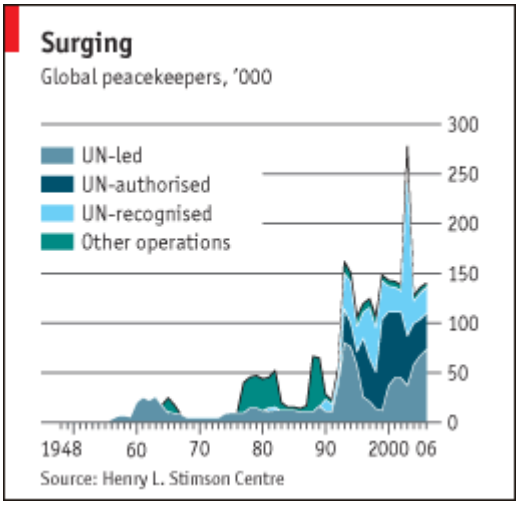
Can the UN cope with increasing demands for its soldiers?

Get article background



CALL it peacekeeping, peace-enforcement, stabilisation or anything else, but one thing is clear: the world's soldiers are busier than ever operating in the wide grey zone between war and peace.

The United Nations has seen a sixfold increase since 1998 in the number of soldiers and military observers it deploys around the world. About 74,000 military personnel (nearly 100,000 people including police and civilians, and increasing fast) are currently involved in 18 different operations—more than any country apart from the United States. And it is not just the UN that is in high demand. NATO, the European Union and the African Union (AU), as well as other coalitions of the willing, have some 74,000 soldiers trying to restore peace and stability in troubled countries. Added to their number come the more than 160,000 American, British and other troops in Iraq.

The “war on terror” is one cause of this military hyperactivity. But Jean-Marie Guéhenno, the UN's under-secretary for peacekeeping, also sees more hopeful reasons. The growing demand for blue helmets, he says, is a good sign that a number of conflicts are ending.

This is only partly true. In Congo, southern Sudan and Liberia—the UN's three biggest operations—the blue helmets are shoring up peace agreements. But in countries such as Lebanon or Côte d'Ivoire, they are at best holding the line between parties still in conflict.

One reason for the surge in UN peacekeeping is that Africa, the region most in need of peacekeepers, is least able to provide for itself. The AU is trying to improve its peacekeeping capacity, but is desperately short of resources. It has handed over its operation in Burundi to the UN. Now it wants the blue helmets to help relieve its 7,000 hard-pressed AU peacekeepers in Sudan's troubled region of Darfur.

The Sudanese government has long resisted such a deployment, accusing the UN of being an agent of the West. But under sustained international pressure to halt what Washington regards as genocide, it has grudgingly agreed to allow in a “hybrid” UN and AU force. An advance party of 24 police advisers and 43 military officers, wearing blue berets and AU armbands, has started to arrive in Darfur to test Sudan's co-operation. According to a three-phase plan, the force will be built up into a contingent of 17,000 soldiers and 3,000 police officers.

Can the UN take on another onerous peacekeeping operation? Mr Guéhenno says the world already faces two kinds of “overstretch”: the military sort, in which many armed forces of many leading countries are badly strained by foreign operations; and “political overstretch”, in which the world's political energies are focused on just a few acute problems while the UN is left to deal as best it can with many chronic or less visible conflicts.

Mr Guéhenno is cautious about what he can achieve in Darfur. He says he may get the soldiers, given the right political conditions, but is worried about getting enough “enablers”—the crucial specialised units and equipment that enhance the ability of a force to move and operate. These include army engineers and

logisticians, field hospitals and nurses, heavy-lift aircraft and transport helicopters, as well as proper command-and-control and intelligence-gathering: in other words, the wherewithal of modern Western expeditionary forces. These capabilities are in short supply and are expensive; the few countries that have them are using them, and the others can't afford them.

In a region as vast as Darfur, an effective UN force would need to be highly mobile, and make use both of unmanned surveillance drones and special forces. It would need to sustain itself in a harsh environment, some 1,400km (870 miles) from the nearest harbour and with few airfields. Engineers could drill for water, but would be under pressure to share it with local populations and with refugees. And then there is the problem of time. On current plans it would take six to nine months to build up to full strength in Darfur. Having to merge with the AU adds further complications to the command structure.

Finding a fire engine

Apart from military capability, or lack of it, there is the question of political will. Who will risk their soldiers' lives, and their valuable military assets, in a faraway conflict? NATO, the world's foremost military alliance, has struggled for months to find a few thousand additional soldiers—and a few extra helicopters—to back up its troops fighting in southern Afghanistan.

By contrast, European countries moved with unusual speed when the UN appealed for its hapless mission in Lebanon to be reinforced last summer in order to end the war between Israel and Hizbullah. Within weeks of a ceasefire being called in August, French and Italian peacekeepers were coming ashore. It was the first time that sizeable Western forces had donned blue helmets since the unhappy days of the war in Bosnia.

But there were particular reasons for this. Lebanon, of course, is more easily accessible than Afghanistan or Darfur. But it is also less dangerous than southern Afghanistan, and European governments regard the Israeli-Arab conflict as much closer to their interests than the effort to pacify rebellious Pashtun tribesmen.

UNlimited

Current UN peacekeeping missions

Location	Mission name	Year of deployment	Number of personnel*
Congo	MONUC	1999	22,167
Liberia	UNMIL	2003	18,382
Southern Sudan	UNMIS	2005	13,021
Lebanon	UNIFIL	1978	11,431
Côte d'Ivoire	UNOCI	2004	11,150
Haiti	MINUSTAH	2004	9,524
Kosovo	UNMIK	1999	4,631
Burundi	ONUB	2004	3,142
Ethiopia and Eritrea	UNMEE	2000	2,687
Timor-Leste	UNMIT	2006	1,340
Golan Heights (Israel/Syria)	UNDOF	1974	1,247
Cyprus	UNFICYP	1964	1,069
Afghanistan†	UNAMA	2002	850
Western Sahara	MINURSO	1991	459
Georgia	UNOMIG	1993	419
Middle East‡	UNTSO	1948	374
Sierra Leone†	UNIOSIL	2006	298
India and Pakistan	UNMOGIP	1949	113

*Includes military, police and civilians †Political or peace-building missions ‡Egypt, Jordan, Israel, Lebanon and Syria

Source: United Nations

Kofi Annan, the former UN secretary-general, liked to say that the UN is the only fire brigade that must go out and buy a fire engine before it can respond to an emergency. The Security Council must first authorise an operation and pass a budget, and then the secretariat beseeches governments to contribute forces and arranges the means to transport them. This system has created a two-tier structure: powerful countries decide the missions (and pay for them) while poor countries such as India, Pakistan, Bangladesh, Nepal and Jordan supply the soldiers. They receive a payment for doing so; this becomes for some a subsidy for their own armed forces, while the deployment also provides their troops with training.

Idealists such as Sir Brian Urquhart, a former UN under secretary-general, believe it is high time the UN had its own “fire engine”: a permanent force that could deploy quickly to stop conflicts before they spin out of control. The UN's founding fathers envisioned some kind of international army, but all proposals for a standing UN force have foundered—partly because of political objections to giving the UN too much power, partly because of the practical difficulties of recruiting, training and paying for such a force.

After the failure of the UN in the mid-1990s to stop blood-letting in Somalia, Rwanda and the Balkans, many argued it would be better for those who are properly equipped to deal with putting out the fires of conflict. In 1999, it was NATO that stopped the killing of ethnic Albanians in Kosovo, while a force led by Australia halted the conflict in East Timor. A year later, in Sierra Leone, the quick deployment of about 1,000 British soldiers helped save what was then the UN's largest peacekeeping mission from collapsing under attack by rebels of the Revolutionary United Front.

All this seemed to confirm that the UN could take on only soft peacekeeping and “observer” missions with co-operation from the warring sides. But in 2000 a panel headed by Lakhdar Brahimi recommended a complete rethink of UN peacekeeping. The United Nations, it acknowledged, “does not wage war”; but its operations nevertheless had to “project credible force” and be ready to distinguish between victim and aggressor.

Mr Brahimi's central recommendation was the creation of multinational brigades around the world ready to deploy at short notice. This idea of pre-assembling bits of the fire engine has made only fitful progress. But other proposals have been acted on. They include the creation of a more powerful headquarters to oversee the UN effort; stockpiling of equipment; compilation of lists of military officers, police and other experts who will be on call to join UN missions; and the meshing of peacekeeping with ordinary policing, government reform and economic development.

New missions are now much more likely to be given robust mandates authorising them to use “all necessary means” under Chapter VII of the UN Charter: in other words, aggressive military force. In places such as Congo and Haiti, the UN has even been accused of using too much force.

Since the world is likely to need large numbers of peacekeepers for the foreseeable future, a further option is being explored: “leasing” the fire engine by hiring private security companies to do more of the work. Don't expect anything to happen quickly, though. The world, and especially the Americans, has moved a long way towards the privatisation of war. But for many, the privatisation of peacekeeping is still a step too far.

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The 110th Congress

Tough choices, Madam Speaker

Jan 4th 2007 | WASHINGTON, DC
From The Economist print edition

Peter Schrank

Democrats took control of Congress this week with promises of fiscal discipline, bipartisanship and help for middle-class America. They can't keep them all

NANCY PELOSI made history this week, and she made sure Americans noticed. The congresswoman from San Francisco, who became the country's first female speaker of the House of Representatives on January 4th, planned to celebrate her swearing-in with three days of carefully choreographed festivities, including a concert, a “people's” reception on Capitol Hill and a trip to her native Baltimore, where a street is to be named after her.

The razzmatazz was designed to convince Americans that Ms Pelosi is not the wacky west-coast left-winger of Republican caricature, but a Catholic mother of five from modest origins in an industrial town. And, more important, that she is a responsible leader who intends to get things done. Harry Reid, the Senate's new majority leader, took over with less fanfare but a similar commitment to action.

The initial to-do list is well known. For months, Democrats have proclaimed their priorities, dubbed “Six for 06”. Ms Pelosi has promised to pass them within the first 100 hours of the congressional session. Top of the agenda is ethics reform, in particular banning lawmakers from taking gifts or free trips from lobbyists, followed by the creation of new budget rules.

The first full-scale bill will be to implement the homeland security improvements recommended by the 9/11 Commission. That is to be followed by legislation to raise the minimum wage from $5.15 to $7.25 an hour, boost embryonic stem-cell research, encourage the government to negotiate with drug companies for lower prices in the Medicare prescription-drug plan, cut the interest rate on student loans, roll back tax subsidies for oil firms and expand incentives to save.

These priorities are less a coherent agenda than a grab-bag of popular initiatives. But they have a clear political logic. Democrats want to show, quickly, that they are the party of clean, responsible and effective government, unlike the sleazy, partisan and reckless Republicans. President Bush tried to climb on the bandwagon this week, echoing Democratic calls for a balanced budget by 2012.

Unfortunately, the tensions between the Democrats' broader promises are already becoming obvious. The pledge to be bipartisan is being eclipsed by the desire to act quickly. House Democratic leaders have threatened to limit congressional debate on their Six for 06 priorities, exactly the tactics Ms Pelosi and her colleagues deplored when Republicans used them.

The toughest choices involve the budget. Democrats will be forced to decide between their promises to

help middle-class Americans and their commitment to fiscal prudence. So far, the focus has been on fiscal discipline. Even before formally taking over, the Democrats in charge of spending bills in both the House and Senate have made some sensible decisions. The first concerns the unfinished 2007 budget. Technically, Congress ought long ago to have voted on spending bills for the fiscal year that began on October 1st 2006. Instead, the Republicans left town with only two out of 11 bills completed.

Democratic bigwigs have promised a single bill that keeps spending at last year's level. And they have pledged to strip out all “earmarks”, the tagged spending plans through which politicians direct funds to their home districts. Around 10,000 such pieces of pork, worth around $17 billion, are to be filleted out. The 2008 budget will allow earmarks, but only after new rules are put in place that will require politicians to attach their names to them.

More broadly, the Democrats seem determined to improve the budget process. They want Mr Bush to include the cost of the Iraq war in his formal budget rather than send Congress a series of “supplemental” spending bills. (The next such request, for at least $100 billion, is due in early February). Likewise, rather than passing stop-gap laws every year to prevent the Alternative Minimum Tax from ensnaring ever more middle-class Americans, Democratic tax writers want to solve the problem permanently—though they are coy about how to do so. But most important, Democrats have pledged a return to pay-as-you-go (PAYGO) budget rules.

These rules were first adopted in 1990, when America's budget deficit was almost 4% of GDP. The idea is simple. Any tax cut or expansion of a government entitlement programme, such as Medicare, has to be offset by spending cuts or tax increases elsewhere. Only a super-majority of 60 Senate votes can override the need for offsets. These rules helped shrink the deficit; but with the budget in surplus, Mr Bush's 2001 tax cut set them aside.

Strictly re-adopted, PAYGO rules would force the Democrats into a far tighter fiscal straitjacket than many realise. That is because Mr Bush's tax cuts technically expire in 2010. Under strict PAYGO rules, any extension of the Bush tax cuts—even those, such as the child-tax credit, that are popular with many middle-class Americans—would need to be paid for by spending cuts or higher taxes elsewhere.

To provide more wriggle room, some Democratic voices have suggested that the PAYGO rules should be based on a different budget baseline, perhaps one that assumes an extension of the Bush tax cuts. But a louder chorus wants the rules strictly interpreted. Many of the new lawmakers are staunch fiscal conservatives. The “Blue Dog Democrats”, a congressional group that pushes for budget discipline, now has 44 members and a powerful voice.

The tussle over PAYGO is the opening salvo of a debate that will define the new Congress. The fiscal hawks will argue that political success depends on the Democrats' fiscal responsibility, a claim the party's left is already disputing. Paul Krugman, a prominent commentator, recently argued that deficit reduction was economically sensible but politically futile. The lesson of the Bush presidency, he says, is that the fruits of fiscal prudence are squandered by subsequent irresponsibility. Democrats ought not to make the mess worse, but should not forswear their own policy priorities to improve it. With luck, the hawks will prevail.

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Governors old and new

The second term-inator

Jan 4th 2007 | LOS ANGELES AND NEW YORK
From The Economist print edition

Arnold Schwarzenegger promises to be nice to Democrats

ON DECEMBER 23rd Arnold Schwarzenegger, the governor of California, tripped over a ski pole and shattered his femur. The freakish accident sent him to bed for a week, where, dressed in a skimpy hospital gown, he signed an executive order creating a pensions commission. There are few circumstances in which a politician can display both seriousness and biceps. Trust Mr Schwarzenegger to spot one.

Mr Schwarzenegger is unusually cocky these days, particularly for a Republican. Having routed his Democratic opponent in November's elections, he has set a muscular agenda for his second term. At the top of the list is extending health coverage to millions of uninsured Californians. That is to be followed by reform of the state's ruinously generous public-sector pensions, a drastic improvement in its overcrowded prisons and a redrawing of its gerrymandered political districts.

All this, the governor reckons, can be done without partisan squabbling. Mr Schwarzenegger has promised to co-operate with the Democrats who dominate California's legislature and, in doing so, to set an example to Washington. Such pledges of bipartisanship are common and unreliable. But there is reason to think that the former Mr Olympia's promise to play gently might be genuine.

Mr Schwarzenegger has already tried confrontation, with unhappy results. Shortly after taking power in 2003, the then-popular governor began jostling legislators, calling them “girlie men” and threatening to take his proposals directly to the public if he met opposition. He was soon in open war with Democratic politicians and their allies in the unions.

The governor landed some blows on his opponents, but at enormous cost to his own popularity. His approval ratings marched downhill in step with those of the legislature (see chart), and four propositions that he put on the ballot in a 2005 special election all failed. Last year Mr Schwarzenegger changed course again, co-operating with Democrats in raising the state's minimum wage and signing a bill to combat global warming. His popularity surged, along with that of the legislature. The message is clear: Californians do not like bickering.

Large obstacles still stand in the way of Mr Schwarzenegger's agenda. The political gerrymandering that he wants to undo has filled the legislature with ideological hard cases, on the right as well as the left. Mike Villines, the leader of the Republican caucus in California's Assembly, has already fired a shot across the governor's bows by warning that the prison crisis must not be solved by “letting more felons loose”.

Mr Schwarzenegger was hardly the only governor being inaugurated this week: last November was a bumper gubernatorial election, with races in 36 states. New-crop governors now run some of America's biggest states, including New York, Ohio and Florida.

No new governor faces higher expectations than Eliot Spitzer. New York's former attorney-general won a record 69.6% of the valid vote in November. New Yorkers are now looking to him to fix everything from failing schools and a bloated Medicaid

programme to ageing infrastructure and soaring public debt. Mr Spitzer, never one to be idle, is off to a running start. The inauguration on January 1st was not until 1pm, but he signed no fewer than five executive orders that morning.

Most of the measures, such as a ban on gifts from lobbyists to state employees, aim to rid Albany, the state capital, of sleaze. The need for that has become even clearer since the election. On December 19th Joseph Bruno, the Senate majority leader, admitted that the FBI is investigating his business affairs. Days later, Alan Hevesi, the state comptroller, resigned and pleaded guilty to fraud for using state employees as his wife's personal chauffeurs. Mr Spitzer has his work cut out.

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Ethanol

Even in Texas

Jan 4th 2007 | HEREFORD
From The Economist print edition

A cow town embraces a new fuel

IT'S best to hold your nose when visiting the Bar G Feedyard near Hereford (the “Beef Capital of the World”) in the Texas Panhandle. Some 125,000 cattle are here, black dots huddled in pens as far as the eye can see. The manure—some 675m lb (300m kg) annually—piles up and gets carted away for fertiliser.

Soon there will be a new use for the cow dung. Ten miles away, Panda Ethanol, a Dallas-based company, is building one of America's largest ethanol plants, capable of producing 100m gallons (380m litres) a year. Manure from Bar G will be trucked down the road, at Panda's expense. There, with the aid of sand and heat, the manure will be gasified. The synthetic natural gas will then be burned, creating steam that will heat up corn—40m bushels (1m tonnes) a year—and help turn it into ethanol. The plant is ringed by a double railway line that will bring in Midwestern corn and take ethanol out.

With the ethanol craze in full swing in America, good times lie ahead for corn-belt towns. Hereford is actually getting two ethanol plants: White Energy, a rival Dallas company, is building its own 100m-gallon refinery just down the road. It will be powered by more conventional natural gas (not manure) and will also be operational by the end of the year. In a few years there should be at least half a dozen working ethanol plants in Texas, up from none at the moment.

The construction boom is mirrored elsewhere. According to the Renewable Fuels Association, America already has 110 ethanol refineries, with 73 more under construction. Once they are finished, capacity should more than double, to 11.4 billion gallons a year. Federal subsidies are encouraging the enthusiasm, despite worries that running cars on ethanol blends has drawbacks. Critics note that it takes enormous amounts of energy to grow and harvest corn, and that ethanol, though cleaner than petrol, gets fewer miles to the gallon. And ethanol production is still a drop in an ocean. Americans guzzle almost 400m gallons of petrol a day.

For American farmers, ethanol seems a boon so far, and Midwestern politicians have rushed to embrace it. But some worry that demand for corn is driving up prices for livestock feed (which is often corn-based). “Cattle, hog and chicken producers are taking it on the chin with the increase in grain prices,” says Johnny Trotter, president of Bar G. He is delighted, however, that hauling away cow dung will no longer cost him more than $350,000 a year once Panda's manure-fired plant is finished.

A partial solution is at hand, in the form of protein-rich distillers grain. This is a byproduct of producing ethanol from corn, and cattle can eat it, though pigs and chickens can't. In theory this means that operators such as Mr Trotter should not suffer too much of a price jolt from the diversion of corn into ethanol. In practice, however, switching over will be a big adjustment for cattle operations. So Mr Trotter, like many others, is looking forward to technological breakthroughs that will lead to the production of cellulosic ethanol—which can be made efficiently from switchgrass, rather than inefficiently from corn kernels.

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Mississippi turning

Jan 4th 2007 | HATTIESBURG AND JACKSON
From The Economist print edition

Can people be made to change their minds about the Magnolia State?

EVEN in a state that is used to bad press, 2006 ended on a low note. First, the head of Mississippi's particularly nasty branch of the Ku Klux Klan died in a penitentiary in Parchman, stirring up memories of the state's racist past. Then Charlie Rangel, a veteran black congressman from Harlem who has never set foot in the place, suddenly remarked: “Mississippi gets more than their fair share back in federal money, but who the hell wants to live in Mississippi?”

That was hurtful. The state's papers demanded he apologise; Mr Rangel said he had never meant to be offensive, though he clearly had. The general reaction was summed up by Erin Vaughn, a student in education at the University of Southern Mississippi in Hattiesburg: “Everyone thinks we blacks still work as slaves on cotton farms and the rest of us are fat or stupid. Few have even visited our state.”

Alas, some of the data are hard to shake. The Census Bureau's 2005 survey shows that Mississippi has America's highest poverty rate, 21.3%; the national average is 13.3%. It also has the lowest median household annual income: $32,938, compared with $46,242 nationally. The Department of Agriculture's Economic Research Service found that only 16.9% of Mississippians completed college in 2000 compared with 24.4% nationally, making Mississippi the third worst-educated state after West Virginia and Arkansas. The state has awful rates of diabetes and obesity. And its racial history, of course, is awful.

Locals bristle, however, because the state is attractive in a low-key, woodsy way, its literature and music have national standing, the cost of living is very low and its people are kind. Besides, the past is the past; these days, they say, everybody gets along just fine. The problem is getting outsiders to believe it.

Last year Rick Looser of the Cirlot Agency in Jackson, the state capital, launched “Mississippi Believe It”, a poster campaign. He notes, among other things, that although Mississippi had 10,000 Klan members in the 1960s, today it elects more black officials than any other state. In 1970 there were 81 statewide; in 2000 there were 897 out of about 4,800, many of them women. In a state that is 37% black, one would expect a high number. But it is not to be knocked, all the same.

Locals think the “uneducated” and “lazy” stereotypes stem from media coverage of the Delta region (shared with Arkansas, which often jostles Mississippi at the bottom of national rankings) where poverty and poor education are rampant. To counter this, one of Mr Looser's posters reminds people that Mississippi produced Tennessee Williams, William Faulkner and John Grisham. “Yes, we can read. A few of us can even write,” the poster reads.

Mississippi took a hard knock from Hurricane Katrina in 2005, but its economy is growing. In June, General Electric-Aviation started building a local plant to make jet-engine components. In May, Raybestos Products, which makes friction plates for cars and buses, announced that it would build a new factory in the west of the state. Nissan employs more than 5,000 people statewide, with more jobs expected. Gray Swoope, executive director of the Mississippi Development Authority, says Mississippi is fast becoming the gateway to the new South.

However, some locals remain cynical. Thomas Jackson, a young guitarist living in Hattiesburg, says his state should have promoted itself sooner. Few realise for instance that the king of Delta blues, Robert Johnson, was born in Hazelhurst, south of Jackson, and spent his childhood in the northern Delta. The Robert Johnson Blues Foundation received state and federal funding last year and HBO, a TV network, plans a documentary on Johnson's life. But Johnson's birthplace is rapidly decaying. Elsewhere, Mr Jackson says, it would have become a nice museum long ago.

Mr Looser is confident that perceptions will change eventually. “Sometimes we just have to wait for a whole generation to die off before things truly shift,” he says. The only complaints he receives are from older folk asking him to hold off promoting Mississippi lest “a ton of Yankees move down and ruin the place.” As long as Yankees like Mr Rangel exist, however, that looks a fairly distant prospect.

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The death penalty

The executioner's wrong

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Florida, California and Maryland suspend lethal injections

ON DECEMBER 13th, Angel Diaz, a convicted murderer from Florida, became the latest victim of a botched lethal injection. The doctor who served as executioner bungled the first set of injections, sliding the needle straight through the vein and pumping the toxic chemicals directly into the underlying flesh. Mr Diaz writhed, grimaced, and attempted to speak until a second dose killed him. That was 34 minutes later; the execution should take only a fraction of that.

Two days later, Jeb Bush, in his last month as governor, suspended all executions in the state. He also set up a commission to consider whether Florida's lethal injections are constitutional.

Other states are now mulling over the same question. Lethal injection is the standard method of execution in 37 of the 38 states that have the death penalty. It is clearly less gruesome than any of its predecessors. It is obviously better than electrocution, for example, which has caused several prisoners to burst into flames. But a growing number of states think that is setting the bar too low.

This summer, Missouri halted executions after the doctor who supervised them admitted that he was dyslexic and had, on a previous occasion, given an inmate only half the recommended dose of anaesthesia. On the day that Florida halted its executions, a federal judge in California ruled that the state's use of lethal injections amounted to “cruel and unusual punishment” and was therefore unconstitutional. And a few days later, a Maryland appeal court suspended capital punishment there on the grounds that the state's Execution Operations Manual should have been subjected to public hearings before being adopted.

These are not unqualified triumphs for opponents of the death penalty. The Florida, California and Maryland moratoriums were prompted by procedural issues that may be easily resolved. Florida's new governor, Charlie Crist, says he will keep Mr Bush's moratorium in place until March, when the commission is due to present its findings. But Mr Crist is not known for his clemency. His nickname is Chain Gang Charlie.

And capital punishment still attracts broad support in America. According to an October 2006 Gallup poll, two-thirds of Americans support the death penalty for people convicted of murder. That figure has hardly budged since the late 1990s.

Still, although 38 states have the death penalty, not many use it. In 2006, America had 53 executions, its smallest number for 10 years; and Texas was responsible for nearly half of them. Only 14 states executed anyone at all. Some states use the death penalty so rarely that a moratorium would be almost redundant. New Jersey, for example, has not carried out an execution since 1963 and probably never will again. On January 2nd, a panel of legislators there recommended that the state abolish the death penalty altogether.

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New York

Booze ban

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Last orders on the commuter train?

AH! NEW YORK, the city that doesn't sleep. Nor does it smoke; puffing in bars, restaurants and other public places is prohibited. It can't talk on mobile phones in cars or in schools. It soon won't be allowed to eat what it wants because the city's Board of Health recently voted to ban artificial trans fats in most city restaurants. And now alcohol may be banned on its commuter trains.

Last month Mitchell Pally, a Metropolitan Transportation Authority (MTA) board member, proposed a ban on the sale and consumption of alcohol on the Long Island Railroad (LIRR) and on Metro North, which connects New York City to its northern suburbs in New York and Connecticut. Mr Pally is worried that tipsy commuters drive home after drinking on the train. Peter Kalikow, the MTA's head, agreed, saying he wanted to “severely limit” passengers from buying or drinking alcohol. The MTA has duly formed a task force to consider the proposal. It will also consider a possible ban against passengers bringing their own alcoholic refreshments onboard.

Although alcohol is already banned on St Patrick's Day and New Year's Eve, outright prohibition would be difficult to enforce. Alcohol is readily available in some station bars. Besides, most commuters consider the trains' bar carts a much-needed amenity to help unwind after a stressful day. Critics argue that no car accident has ever been directly connected to drinking on the train. Some even think that people should be responsible for their own behaviour.

If the task force recommends a ban, there's still hope for commuters longing for a cocktail. The entire MTA board would have to approve the measure, which would take time. Besides, the Connecticut authorities see nothing wrong with making commuting more tolerable by raising a glass. They may be able to continue selling booze even if New York lines have to stop.

The task force, made up of board members and railway employees, will report back to the MTA board in the spring. In the meantime, tipplers can find out which train has bar-car service by looking for the martini-glass icon on the timetable. Now if only the MTA would do something about the recent revelation that a lot of delays on the subway are caused by sick passengers, many of them glucose-starved dieters.

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Lexington

The urge to surge

Jan 4th 2007
From The Economist print edition

Kevin Kallaugher

Sending more troops to Iraq could bring serious problems at home

Get article background

GEORGE BUSH has never been a risk-averse politician. He cut taxes while boosting spending. He opened up a second front in the war on terror, in Iraq, before finishing with the first front, in Afghanistan. And now he's at it again—preparing to raise the stakes yet further in Iraq.

Mr Bush began 2006 by trying to implement a new “strategy for victory” in that country. The victory proved elusive. Now he wants to begin 2007 with another strategy—one that he has been mulling over with senior political and military advisers for the past month or so, and which he is due to unveil as early as next week. The betting is that he will reject the managed defeat that was outlined in the Baker report and opt instead for a “surge” of 20,000-30,000 more troops to Iraq.

The aim of the “surge” is to restore order in Iraq—and, by restoring order, reinject a little life into the project of democratising the Middle East. Perhaps he will have some luck on both counts. And perhaps he will secure his reputation as a “transformative” president after all, the man who kept his head when all about him were losing theirs.

But Mr Bush's double-or-quits policy is rife with risks, not just in the Middle East—where the hanging of Saddam Hussein reminded the world just how far Iraq has sunk—but also back home. They are risks that threaten to reduce Mr Bush to Nixonian levels of isolation, and that threaten long-term damage to the Republican Party. Mr Bush told the author Bob Woodward that he would not withdraw from Iraq even if his wife and dog were the only people left on his side. The jest may not prove idle.

This might sound like hyperbole. Mr Bush is currently receiving powerful support for “surge” from two of the country's most prominent politicians: John McCain, who is the front-runner to win the Republican nomination in 2008, and Joe Lieberman, a former Democratic vice-presidential candidate who defeated an anti-war Democrat in last year's congressional elections. The two men are back from a ten-day visit to Iraq, and are even more voluble than usual. At the same time, the Democratic leadership continues to be nervous about confronting Mr Bush directly on the subject. Harry Reid, the new Senate majority leader, proclaimed his support for “surge” under certain conditions, before changing his mind a couple of days

later. Hillary Clinton pulled the opposite trick—first coming out against “surge”, then laying down conditions that would make her change her mind.

But the hyperbole is fast becoming reality. Messrs McCain and Lieberman are part of a diminishing band of diehards on the Iraq war (Mr Lieberman is a band of one on the Democratic side). And the Democratic leadership is likely to be forced to drop its equivocations over the next few weeks. The most worrying problem for Mr Bush, though, is the growing hostility to “surge” in his own party. Chuck Hagel's description of the policy as “Alice in Wonderland” is par for the course: the senator for Nebraska has long criticised the war. But now two other senators who face uphill races for re-election in 2008 have added their voices to the criticism: Oregon's Gordon Smith and Minnesota's Norm Coleman. Robert Novak, a long-time Republican-watcher, says Mr Bush will find it hard to get the support of more than a dozen of the 49 Republican senators for sending more troops.

This will almost certainly strengthen the Democratic Party's will to resist the president. Most Democrats with presidential ambitions, with the notable exception of Mrs Clinton, have turned against the war. The new speaker of the House, Nancy Pelosi, is a long-standing war critic. And the Democrat-led committees will soon have a life of their own.

Joe Biden, who becomes head of the Senate Foreign Relations Committee, says that he plans to begin three weeks of hearings on the war. Mr Biden has already come out against sending more troops. His committee includes several big names who will take the opportunity to lay into the new policy: John Kerry and Barack Obama on the Democratic side and Mr Hagel on the Republican. It is quite possible that the committee will be able to expose doubts among senior military personnel about the effectiveness of the policy even before Mr Bush can get a single new boot on the ground in Iraq.

The Vietnam syndrome

The risk for Mr Bush if his policy fails is that he will be both isolated and marginalised—isolated from a party that worries that Iraq is draining away its electoral lifeblood; marginalised within the policymaking process. The constitution gives the president wide powers over foreign policy, and few presidents have guarded this power more jealously than Mr Bush. But another failure in Iraq—particularly after the Baker report held out the possibility of a bipartisan resolution—could in practice result in a dramatic shift in real authority to the other end of Pennsylvania Avenue, as happened in the late stages of the Vietnam war.

The risk for the Republicans as a whole is that they will lose their strongest card—the idea that they are better at defending America than the Democrats. It is possible that the card has already been torn beyond repair by the bungled policy in Iraq. But sending more troops raises the stakes still further: anything short of a substantial improvement in Iraq's security will mean that the Democrats are well placed to sweep the board in 2008. John Edwards, the former Democratic senator who launched his presidential campaign on December 28th, has already started to refer to the idea of sending more troops as “the McCain doctrine”, underlying Mr Bush's growing irrelevance.

The Bush-McCain doctrine needs to be given time to work. And the Democrats will pay a steep price if they are seen to be trying to sabotage America's hopes of success in Iraq. But Mr Bush could be spending even more time seeking solace from his wife and dog this year than last.

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Brazil's economy

Bulldozer required

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From The Economist print edition

Reuters

Lula begins his second term with a pledge to unblock Brazil's sluggish economy

Get article background

“CHANGE” was the motto of Luiz Inácio Lula da Silva during his first term as Brazil's president. The former trade-union leader did a better job of governing Brazil on behalf of its poorest citizens than of cleaning up corruption, as he promised. On being sworn in for a second term on January 1st, Lula opted for multiple mantras including “growth”, “inclusion” and “unblocking”. The economy grew by an annual average of just 2.6% during his four-year term in office while the rest of the world grew by 4.8%. Lula now wants to lift Brazil's rate to 5%.

Despite slow growth, Lula's boast that his second term is beginning with the most “favourable and auspicious” conditions in history is not a wild exaggeration. Inflation was just 3% last year and is expected to remain subdued in 2007. Interest rates, though still far too high, are falling. With a trade surplus of $46 billion and foreign-exchange reserves nearly double that, the economy looks safe from foreign shocks. Growth ought to speed up to 3.5-4% this year, thanks in part to the lagged effect of lower interest rates.

Crime and Brazil's bad schools are among the shadows that darken this picture. This week an elite federal police force was sent to Rio de Janeiro to restore order after a wave of drug gang attacks left 19 people dead, including seven burnt to death on a bus. Seven months ago prison-based gangs inflicted similar violence and even greater carnage on São Paulo. “Terrorism” will be fought “with the strong arm of the state”, Lula pledged.

For a second-term president, he is in a strong position to take action. Lula won 61% of the valid votes in the second round of the presidential election on October 29th and his popularity has since climbed to an astonishing 71%. At least eight parties are expected to join his coalition, giving the government a comfortable majority in the lower house of Congress and a slim one in the Senate. The main worries therefore have to do with Lula's own performance and that of his government. “Everything indicates there will be no qualitative leap in the second term,” says David Fleischer, a political scientist at the University of Brasília.

One problem is that Lula has yet to unblock his own government. He has delayed naming a new cabinet, in part because which parties get what jobs depends on who is elected next month to lead the lower house and Senate. Lula will miss the advice of first-term stalwarts toppled by scandal, especially the reform-minded finance minister, Antonio Palocci. A much-heralded “growth acceleration programme” is unlikely to appear until the second half of this month.

A bigger worry is what such packages will contain when they do arrive. Ideally, Lula would uncrate a bulldozer to clear the main obstacles to growth: public spending that is both excessive and badly targeted and regulation that is heavy-handed and sometimes capricious. These are the underlying causes of high interest rates, a crushing tax burden of nearly 40% of GDP and inadequate public and private investment. Instead, Lula is proposing to deploy a smallish forklift, which may remove some impediments but scatter others.

A glaring example is this year's 5.3% real rise in the minimum wage to 380 reais ($177) a month, which Lula imposed over the objections of his current finance minister, Guido Mantega. This comes on top of a series of generous increases that helped secure Lula's re-election and will inflate the already intolerable cost of state-financed pensions. Thereafter the government intends to limit salary rises, but that promise may not be kept.

The growth package is expected to include tax cuts to spur investment and higher spending on infrastructure, but there is now little chance that other spending will be trimmed to pay for it. In fact, to make room for infrastructure the government may cut the primary surplus (ie, before interest) to less than 4.25% of GDP, the target Lula set upon taking office in 2003. This would not threaten economic stability. Even if the surplus were cut to 2.5%, debt would continue to fall as a share of GDP, says Alexandre Schwartsman, an economist at ABN AMRO bank. But this means that the fiscal roadblock to higher growth will remain. One of Mr Mantega's top advisers resigned last week, unhappy, it is thought, with the timid pace of fiscal reform.

The one big economic reform Lula mentioned in his inauguration speeches was a plan to convert a patchwork of state sales taxes into a single national value-added tax, an ambitious undertaking with long political odds against it. He also wants to change the rules in order to strengthen parties and reduce corruption. On pensions and the labour market, which require fundamental reforms, he was conspicuously silent.

Lula is exhibiting greater zeal for improving education and for tackling crime. The outgoing Congress approved a new fund to upgrade schools, especially in poor states. The attacks in São Paulo and Rio de Janeiro may encourage more co-operation between Lula and the states' new governors, the main officials responsible for policing. But to unblock Brazil will take far more than that.

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Cuba

Spellbound

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From The Economist print edition

Uncertainties over Fidel Castro's health continue to cloud the island's future

AP

You see; he's still with us

JAMES WORMOLD, hero of Graham Greene's 1958 novel “Our Man in Havana”, is a vacuum-cleaner salesman turned reluctant spy. He invents his sources and sends drawings of vacuum cleaners to London, pretending they show a secret Cuban military installation. One wonders how many fellow hoaxers Wormold has in today's Havana. Economists outside Cuba preface their research papers with warnings that the statistics are untrustworthy—there are no reliable sources. Right now everybody agrees that Fidel Castro is sick, but no one seems to know what he suffers from.

Mr Castro is thought to have cancer. But the Cuban government has denied this, claiming that he is not suffering from any terminal illness, while declining to say when he might return to power. After undergoing urgent intestinal surgery last summer, Mr Castro “temporarily” ceded power to his 75-year-old brother, Raúl, in what is now beginning to look like a permanent transition. On December 26th José Luis García Sabrido, Mr Castro's Spanish surgeon, “confirmed” that the Cuban leader did not have cancer and said he was on the road to recovery. But in a new year's message read out in his name four days later, Mr Castro himself was more circumspect. He had always believed his recovery would be “a long process”, he said, adding that it was “far from being a lost battle”.

The Cuban leader has not appeared in public since July, missing both his 80th birthday celebration, which was postponed until early December, and the commemoration on December 2nd of the 50th anniversary of his arrival from Mexico with fellow rebels, marking the start of the revolution. His disappearance from the public scene suggests either that he is indeed too sick to resume his former role or that he wishes his brother to take centre stage. Either way, it is clear that Raúl is now running things.

Although he lacks his brother's charisma—as one Western diplomat in Havana puts it, “Fidel has cast a spell over this country, and until he is dead and buried the spell is still there”—Raúl was intimately involved with the revolution from the start. None of Cuba's other prominent politicians is likely to challenge him for the leadership. Long in charge of the armed forces, he is also vice-president. “Whatever Raúl decides to do, the rest will follow,” says the same diplomat. But what that will be is still anyone's guess. Possible scenarios range from maintaining the status quo to a Chinese-style economic opening. Dissidents are unlikely to have much impact on the sequence of events once Fidel dies.

It is unclear to what extent America understands or is willing to accept this. Asked who in the Cuban government might be a useful negotiating partner, Caleb McCarry, the State Department's special co-ordinator for Cuban policy, replies firmly, “Our interlocutors are the Cuban people.” But the people may not be listening. American government propaganda efforts, such as Radio and TV Martí, reach almost no one in Cuba, while the Government Accountability Office, a congressional agency, noted in a recent report that money given in no-bid contracts to Cuban exile groups was being spent on “PlayStations, cashmere sweaters, crab meat and Godiva chocolates”.

Last month ten members of Congress, from both political parties, visited the island, the biggest such group since Mr Castro came to power nearly five decades ago. After the visit, even some Republicans took issue with the Bush administration's harsh treatment of Cuba, which has included tightening the long-standing travel ban and imposing restrictions on remittances. The delegation's Democratic members

were blunter: one of them called the government's policies just plain “dumb”.

Remittances are an important part of Cuba's wealth; between one-third and two-thirds of the island's 11m inhabitants are believed to receive money from abroad. The economy has been doing well. According to official figures, it grew by 11.8% in 2005. Even the CIA put growth at 8%, says Philip Peters of the Lexington Institute, an American think-tank.

Tourism is booming. Although it did not grow as quickly last year as in recent years, it brings in billions of dollars of hard currency. Thanks to high prices on the world market, sugar has also helped to boost the economy, despite the smallest crop in more than a century. And record world nickel prices, coupled with a successful joint venture with Sherritt International, a Canadian mining company, mean that Cuba's other chief export also brings in a hefty chunk. But the Chinese, who have increased their investments in Cuba substantially, remain nervous about the economy's inherent inefficiencies.

The bedrock of the Cuban economy, says Dan Erikson of the Inter-American Dialogue, a Washington-based group, is Cuba's political relationship with Venezuela. High payments for some 20,000 Cuban doctors working in Venezuela and heavily subsidised Venezuelan oil prices amount to a cash transfer to Cuba of billions of dollars a year. How much this hinges on the personal relationship between Venezuela's leftist president, Hugo Chávez, and Fidel Castro is unclear. But if these subsidies continue after Mr Castro goes, average Cubans may find that the comandante's passing has little immediate effect on their daily lives.

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Thailand

Generals' disarray

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From The Economist print edition

AP

Bombs in Bangkok and botched currency restrictions have left the military junta looking shaky

WHEN military chiefs seized power in September, many Thais looked on the bright side. They hoped the men in uniform would bring order and security after months of demonstrations for and against the prime minister, Thaksin Shinawatra. Unlike the plotters in the country's many previous coups, this lot of soldiers appeared to be decent men seeking to strengthen democracy, not crush it. And the technocratic government appointed by the junta seemed a capable bunch.

However, the eight bombs that exploded across Bangkok on New Year's Eve, killing three and injuring dozens, shattered any illusions that military rule guarantees security. Suspicions have also grown that the generals are seeking to maintain power the day after they supposedly restore democracy. And the interim government's credibility was damaged by a disastrous attempt, late last month, to curb currency speculation.

The junta has often talked of “undercurrents” of Thaksinites supposedly plotting a counter-coup. So it was unsurprising when the prime minister, General Surayud Chulanont, and other ministers suggested that the deposed leader's allies, perhaps serving in the police or army, had planted the Bangkok bombs.

Mr Thaksin, exiled in Beijing, rejected this “smear”. He said the likely culprits were separatist insurgents from Thailand's mainly Muslim southern provinces. General Sonthi Boonyaratglin, the junta's leader, insisted that the insurgents lacked the capacity to expand their campaign beyond the south. Although they have not recently staged attacks in Bangkok, southern separatists did bomb its airport in 1977.

Even if the insurgents did not plant the Bangkok bombs, the violence in the south shows no sign of abating, despite General Sonthi's efforts to negotiate with the insurgent groups and the release of a group of Muslim prisoners held for years without charge. Mr Thaksin's attempt to crush the insurgency with brutal force made things worse. But, so far, General Sonthi's olive branch has borne no fruit.

Thailand's new rulers have suffered setbacks on other fronts. Their investigations into Mr Thaksin's alleged corruption are struggling to pin him down. Many aspects of Thaksinomics, including cheap health care and state aid for poor rural villagers, were highly popular, and the military government is having to continue such policies while seeking somehow to detach the Thaksin label from them.

Then there have been embarrassing climbdowns. The government went back on its proposal to legalise a

lottery originally set up by Mr Thaksin, and plans to ban alcohol advertising to curb under-age drinking. The generals' promised reform of the corrupt and inefficient police is being fiercely resisted by the force's chiefs—indeed, one theory has it that disgruntled policemen planted the new-year bombs.

However, what has most damaged the government's reputation is its botched attempt to restrain the surging baht. Though it may have had reason to act (see article), the currency controls announced on December 18th were ill-judged, triggering a stockmarket slump which forced it partly to reverse the measures.

A 100-strong constitution-drafting body, chosen by the junta, was set up this week. Its draft will be put to a referendum and followed by elections late this year. But it is unclear who will stand in the elections, let alone who will govern Thailand thereafter: both Mr Thaksin's Thai Rak Thai party and the Democrats, the main opposition party, have been charged with misdeeds in last April's annulled elections and face possible dissolution.

As the reputation of the junta and its government have become tarnished, criticism has become more open. Questions have been raised by Thaksinites about the legality of a land purchase by General Surayud. Gossip about General Sonthi's private life has been printed in Bangkok's press. Newspapers have savaged a suggestion by supporters of the regime that, under the proposed new constitution, the prime minister need not be an elected politician. This was seen as a ploy to keep General Surayud in power. The junta and its allies have also talked of installing an appointed senate. If the junta sticks to this course, there are bound to be bitter rows with civil-rights groups. Public protests against the coup, which have so far been small, might quickly swell.

The generals have kept their promise to be benevolent dictators, but they are being sorely tested. A weakened military government may find itself struggling against rising dissent, and Thais may yet hanker for Mr Thaksin's return.

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China

Coming over the horizon

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Why China wants a bigger navy

CHINA'S President Hu Jintao is seldom seen wearing military green. So when he does, the armed forces pay attention. America and countries around Asia also had cause to sit up and take notice when Mr Hu appeared in military attire on December 27th to declare that China had to build a powerful navy and "make sound preparations for military struggles".

The official summary of Mr Hu's remarks to a gathering of delegates to a congress of the navy's Communist Party branch provided little detail of what the president had in mind. But the tone of his remarks, his insistence that China was a maritime power and the prominence given by the official media to the speech all seem to point to China's determination to build a blue-water navy able to reach far beyond its shores.

America has long fretted that China plans to project its power, not least in order to provide security for its rapidly growing imports of oil and other commodities shipped from the Middle East and Africa. A Pentagon report last year said China could maintain only a "symbolic" naval presence beyond its coast, but was interested in extending its presence to the Malacca Strait and the Indian Ocean.

For more than eight years—partly in an effort to placate America—China has published occasional white papers outlining its military posture. But the latest, published two days after Mr Hu's speech, does little to cast light on China's intentions.

It does not mention, for example, that China is developing an aircraft carrier, as the Pentagon suspects. Nor does the white paper discuss any of China's considerable purchases of advanced weaponry from Russia in recent years, mainly for its navy and air force. This includes destroyers, submarines, sea-skimming anti-ship missiles and fighter jets. Quite how this spending spree conforms with the document's assertion that China's security environment "remains sound" is not explained.

Among the "security challenges" that China does spell out is Taiwan's "radical policy" of pursuing formal independence from China, which it says threatens stability across the Asia-Pacific region (Taiwan admits to no such aim, even though its leaders are sympathetic to it). Still, despite its military build-up, including the deployment of hundreds of missiles on the coast facing Taiwan, China has muted its bellicosity. Its previous defence white paper in 2004 threatened to crush "resolutely and thoroughly" any major move towards independence by Taiwan, "at any cost". That threat is not repeated.

Mr Hu appears far more confident now than he did two years ago that Taiwan's President Chen Shui-bian lacks the political strength and daring necessary to sever the island's constitutional links with the mainland. Mr Chen has openly toyed with the idea of constitutional change. But America's warnings against it (for fear of being dragged into a war with China) and a lack of public appetite for confrontation appear to be restraining him.

In a speech on January 1st, Mr Chen spoke of the "myth" of one China and said only the people of Taiwan had the right to decide their future. But he did not set out any plans to rewrite the constitution accordingly. The following day Mr Hu said China would "not compromise on Taiwan independence". He also said that it would never give up its efforts to reunify the country peacefully. There is likely to be turbulence in Taiwanese politics as it prepares for parliamentary elections at the end of this year and presidential polls early in 2008, but Mr Hu is staying calm.

Even Mr Chen, who normally worries that the island's increasingly close economic ties with China might

compromise its security, has relaxed a little. On December 29th Taiwan announced the easing of its restriction on technology used by Taiwanese semiconductor manufacturers operating in China. It is not a big gesture. The more advanced process permitted under the new rule is already being used by Chinese competitors, Taiwanese officials say.

For all the suspicions between China and America, the last year has seen a continuing thaw in their military relationship. This was all but frozen in 2001 after a collision between a Chinese fighter and an American spy-plane. But in July General Guo Boxiong, China's most senior officer, paid the highest-level visit to America by a Chinese serviceman since that incident. Moreover the American and Chinese navies, including destroyers and aircraft, staged their first ever joint search-and-rescue manoeuvres in September off Hawaii and in November in the South China Sea. American officials brushed off an incident in October when a Chinese submarine, apparently unexpectedly, surfaced close to an American aircraft carrier near the Japanese island of Okinawa.

So why is Mr Hu, who has been commander-in-chief since 2004, so keen on a bigger navy? Prestige could well be part of it. Chinese state-run television aired (twice, in November and December) an unusual documentary series called “The Rise of Great Nations”. It described, with a remarkable lack of the usual anti-Western tone, how Japan and various Western countries including America and Britain became strong. Naval power was a vital ingredient, the programmes suggested.

A recent report by the Chinese Academy of Social Sciences argued that since China's rapid economic growth in the past three decades had been concentrated in coastal areas, China now had long-range maritime interests. As a result, the country was in the process of changing from a continental land power into a sea power. Expect to see more of that green outfit.

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China and Central Asia

Go west, young Chinaman

Jan 4th 2007 | OSH
From The Economist print edition

China's economic explosion is rippling out to Central Asia

Get article background

THE Karasu Bazaar, just 200 metres from Kyrgyzstan's heavily patrolled frontier with Uzbekistan, is a bustling warren of trading stalls fashioned out of metal shipping containers stacked one on top of another. The wares on offer range from bicycles to television sets and cosmetics.

The haggling is done as it has been for years—in a mixture of Russian along with Kirgiz, Uzbek, Tajik and other tongues. But these days a new language can be heard in the commercial babble: Chinese.

Although the Chinese border is 260km (163 miles) away by road, that has not been an obstacle to the Chinese traders who make up the newest and fastest-growing presence at this Central Asian trading post, outside Kyrgyzstan's second city of Osh. As elsewhere, China's growing commercial force is penetrating the remote lands beyond its western border.

What do Kyrgyzstanis think of the new arrivals? Most shrug their shoulders. A trader at the Karasu market is non-committal, describing the influx as “tolerable”. Asked about the quality of Chinese goods streaming in through the Irkeshtam post on the Kyrgyzstani-Chinese border, Kosmonbek Jumabaev, a chief customs inspector, is equally bland. “There is demand for them in our country so I suppose these goods must be okay,” he answers.

In Karasu the Chinese traders are also ambivalent. They are quick to gripe about the burdens they say they face in the form of red tape, harassment and bribe-taking by Kyrgyzstani police. Most complain that they earn far less than they had hoped. But still they come. According to Kyrgyzstani officials, more than 20,000 Chinese migrants now work as traders in the nation's markets. The flow of Chinese goods into Kyrgyzstan increased eight-fold between 2000 and 2005, to $866m, and continues to rise fast.

China's presence is also growing in neighbouring Kazakhstan. There more business is done on regional and global energy markets than in makeshift market stalls. But for the ambitious urban middle class Chinese is still the language to learn. China and the rest of the Central Asia Regional Economic Co-operation (CAREC) forum—an eight-member grouping that also includes Kyrgyzstan, Kazakhstan, Azerbaijan, Afghanistan, Mongolia, Tajikistan and Uzbekistan—have seen big increases in trade.

China's trade with the other members has surged from $1 billion in 1997 to $9.8 billion last year. This represents less than 1% of China's worldwide trade but is nevertheless important for the Central Asian partners. China finds itself in a position of strength, and is making firm demands in return for its trade and aid.

For example, China recently spent about $7.7m to build an 18km stretch of road from the Chinese border towards Osh. But its gorgeous smooth surface suddenly gives way to a dilapidated, pot-holed obstacle course for the rest of the journey. China has offered to complete the road, but only in return for a stake in Kyrgyzstan's gold industry.

Kyrgyzstani officials are reluctant to surrender a share in one of the nation's few moneymaking businesses. But after the heady days that led it to power amid the protests of the so-called Tulip Revolution of 2005, the government is now under pressure to show results.

A smart new road could be just the thing, so it continues to mull the offer. This poses “something of a prisoner's dilemma”, said one World Bank official attending a recent CAREC conference in Urumqi. “If they don't take it, someone else in the region will.”

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Turkmenistan

A bad father of the Turkmen

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From The Economist print edition

President Niyazov is dead, but his country lives under his shadow

FEW people will mourn the death of Turkmenistan's President Saparmurat Niyazov, the 66-year-old dictator who called himself Turkmenbashi, or “Father of the Turkmen”.

In a region dominated by autocratic leaders, he stood out like one of the grotesque gilded statues of himself that disfigure the capital, Ashgabat. His fondness for huge diamond-studded rings and changing his hair colour made him the butt of jokes. Inevitably, the giant portraits of Turkmenbashi had to be replaced whenever he adopted a new hair-dye.

Mr Niyazov was not just an eccentric. He wrecked his country, particularly the health and education systems, even though he presided over the world's fifth-largest reserve of natural gas. He imposed a Stalinist reign of fear in which anyone suspected of disagreeing with him was sent to a psychiatric ward or prison.

It is unclear whether Turkmenbashi's death from a heart attack on December 21st will improve the lot of his 5m countrymen any time soon. Despite hints of liberalisation, Mr Niyazov's coterie appears to retain a firm grip on power, and will doubtless continue to trade on his personality cult for some time.

The deputy prime minister, Gurbanguly Berdymukhammedov, rumoured to be a close relative of Mr Niyazov, has been named acting president. Under the constitution, the job was supposed to pass to the speaker of parliament, but he was reported arrested soon after Mr Niyazov's death. The way appears clear for Mr Berdymukhammedov, who has promised better access to the internet and more school years, to become leader in an election on February 11th. Political opponents, mostly in exile, seem unable to pose a challenge.

The big question is whether the vacuum left by Mr Niyazov will allow Islamic extremism to spill over from neighbouring Iran and Afghanistan. The main powers in the region—Russia, the United States and China—are also watching closely. Russia has long had the upper hand. Most of Turkmenistan's gas is exported through the Russian pipeline system. Gazprom, the Russian state giant, buys gas at relatively low prices, and then distributes it in Russia or sells it at a profit elsewhere in Europe.

The United States, however, may now hope that the new rulers will seek to diversify, and adopt a project to build a gas pipeline beneath the Caspian Sea. An alternative southward route through Afghanistan to Pakistan and India, once favoured by Mr Niyazov, has so far proved elusive.

AP

Mr Niyazov became Turkmenistan's Communist boss in 1985 and remained in power after the break-up of the Soviet Union. The country kept afloat thanks to the export of natural gas, even though much of the bounty was squandered on dubious projects, such as a huge artificial lake in the desert. A London-based campaigning group, Global Witness, said Mr Niyazov siphoned away much of the country's gas revenues into offshore bank accounts.

Turkmenbashi also impoverished the minds of his countrymen. All children were required to spend hours learning the *Ruhnama*, “The Book of Spirit”, his eccentric musings on Turkmen history and culture. Russian-language teaching was phased out, music and ballet schools were closed and almost all teachers from ethnic minorities were rooted out. Foreign degrees were no longer recognised. In the end the Father of the Turkmen bequeaths his children a dreadful legacy.

Unlamented

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India

The great job swap

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From The Economist print edition

India's most dysfunctional state is getting a little better

PATNA'S main cinema is full for a Sunday matinée showing of the latest film starring Amitabh Bachchan, India's most famous actor. All 832 seats are occupied by families whistling and clapping at scenes set in an India of German cars and carefully pressed golfing slacks. Last year, just 10% of the seats were selling on any given evening, according to Birendra Singh, the cinema's manager. Now it is normally half-full at night. The reason? People are less afraid of being mugged by gangsters, the police, local bureaucrats or all three in combination when they walk back into the outside world of rummaging pigs and intermittent electricity.

A big reason for the change is that just over a year ago Bihar's voters booted out Laloo Prasad Yadav, who either directly or through his wife had ruled the place for 15 years. The replacement is his long-term rival and former ally, Nitish Kumar. To complete the symmetry, Mr Yadav has Mr Kumar's old job in Delhi as railway minister, and is credited with turning the loss-making state railways around. After a year under Mr Kumar, Bihar also seems to be doing well out of the job swap.

Rivalry between the two politicians dates back to the 1970s when both were student leaders. They were allies in 1990 when Mr Yadav became chief minister of Bihar. But in 1994 Mr Kumar broke away, forming his own political party and plotting his course back to power. In late 2005, enough of Bihar's Muslims and lower-caste Hindus, the groups that had sustained Mr Yadav for so long, came over to Mr Kumar and his allies, voting him into the chief minister's residence.

Inside the ministerial compound, now free of the cows that Mr Yadav liked to graze on its lawns, Mr Kumar is recovering from a bout of malaria. The first thing he did on taking up the post, he says, was to replace old Remington typewriters with computers and e-mail. The next was to make a start on ridding Bihar of its reputation for lawlessness, which has scared away investors and educated Biharis alike.

That is beginning to change. Official figures, vigorously disputed by Mr Yadav's supporters, suggest that kidnapping for ransom, one of Bihar's few flourishing industries during the past decade, is becoming rarer. Between January and October 2006, 166 people were snatched, compared with 214 for the same period in 2005 and 341 the year before. “Now people are committing crimes in the night, stealthily—not out in the open,” says A.R. Sinha, Bihar's chief of police. That is progress.

Outside the capital, Bihar is still barely industrialised. Most of the population is engaged in subsistence farming, but barely subsisting. Of Bihar's under-fives, 54% are malnourished, compared with 47% in India as a whole (itself a higher rate than in sub-Saharan Africa). Much of the subsidised grain intended to feed them is stolen and sold by the low-level officials who are meant to distribute it. In an attempt to end the pilfering, every target household should now receive a book of food tickets, to be redeemed at state-run distribution centres.

Other scams abound, though. According to Deepak Mishra, a local journalist, the state bus company employs 40-odd people for every bus it runs. A recent report from the state's legislative assembly found that 19 senior officers in the Indian Administrative Service, the unsackable elite civil servants, and 108 officers in the Bihar Administrative Service, are facing corruption charges.

If Mr Kumar has made a good start, his old rival should not be written off yet. Even in defeat Mr Yadav was still the state's most effective vote-harvester, possessing a charisma that Mr Kumar lacks. On December 18th he was cleared of a long-standing corruption charge. Mr Yadav is fond of boasting that one day he will be India's prime minister. But if Mr Kumar can turn the state around, he may end up

looming larger in national politics.

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Motoring in Japan

Highway robbery

Jan 4th 2007 | TOKYO
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The unexpected results of a clamp-down on illegal parking

Reuters

They make stacks of money too

JAPANESE traffic cops were until recently a genteel bunch. Confronted with a wrongly parked vehicle, they would just place chalk marks next to the tyres, and return an hour or so later to see if it had been moved before issuing a penalty. But in recent months motorists have faced a new army of private parking wardens who enforce a no-tolerance policy with on-the-spot fines and digital photos taken in evidence.

Shopkeepers, restaurateurs and local businessmen are up in arms. Trade on busy thoroughfares is said to have dropped by 20%. Some businesses have come up with inventive solutions—like the MOS Burger chain that has started taking orders from customers' mobile phones and delivering take-away meals to the kerbside. Valet parking, previously unheard of in Japan, has begun to make an appearance.

A new traffic law, which came into effect last June, gives local police forces the authority to outsource control of illegal parking. Most have elected to do so. Parking fines are up 30% on a year ago and the number of cars abandoned on roadsides has fallen by 60% as eager private enforcers prove their worth.

Traffic in Japan's overcrowded cities has rarely moved so easily. But there have also been unintended consequences. Instead of persuading motorists to use public transport, the enforcement has convinced many to stay at home—at a time when the government wants people to go out and spend money to stimulate the economy.

More sinister is the involvement of the heavy mob. Some people, particularly the elderly and infirm, are being “encouraged” to vacate their family homes by property agents working on behalf of unscrupulous developers. As a result, neighbourhood car parks have suddenly started blossoming across the country like cherry trees.

Average land prices have fallen by more than 80% from their peak during Japan's “bubble years”. Old wooden houses on 80-square-metre plots sell for as little as ¥15m ($126,000) in Tokyo, or less than half that in big industrial cities like Nagoya or Hiroshima. Once cleared, paved and equipped with car-stackers, such tiny plots can generate around ¥5m ($42,000) a year as car parks. The owners are in no rush to get planning permission to build four-storey houses. They would rather pile up cars, and cash.

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Somalia

By dawn the Islamists were gone

Jan 4th 2007 | NAIROBI
From The Economist print edition

EPA

After a stunning victory over its Islamist enemies, the government has to act quickly if the country is not to slip back into its usual civil strife

Get article background

ETHIOPIAN military jets flew low over the hot, blue-black waters of Ras Kamboni on January 1st. They were looking for retreating Somali Islamist fighters. Anywhere between 500 and 1,000 hardliners, including foreign fighters and possibly al-Qaeda operatives, had abandoned their defence of Kismayo, a fishing town 150km (93 miles) up the Somali coast from the Kenyan border. Ras Kamboni, a thickly forested tropical island near the border, was a known training camp for the Islamists.

The retreat from Kismayo the day before had been sudden. Locals said the fighters had abandoned the front-line after nightfall and “melted into the darkness”. By dawn, they were gone. Islamist field commanders had promised to defend the town against the combined advancing forces of the Somali transitional government and Ethiopia, its main backer. Despite having been almost driven into the sea by 12 days of bludgeoning one-sided engagements, the Islamists promised to turn Kismayo into an Ethiopian cemetery.

In reality the landmines, trenches and press-ganged boy fighters were used only to buy time for the most committed Islamists to slip away. They seem to have gone in several directions, some towards Ras Kamboni, others into the salty mangrove swamps or the trackless malaria-infested bush along the Juba river. Ethiopian tanks, which had torn through the Islamist front-lines in the flatlands of central Somalia, could not follow them. The military commander of the Islamists, Sheikh Hassan Dahir Aweys, may have travelled to Mecca for the *haj* (morbidly, some thought, given that he might well be killed before the next pilgrimage). America's Fifth Fleet is patrolling the coast between Mogadishu and Ras Kamboni to prevent Islamists escaping, and special forces may have been landed to track them through the swamps.

Kenya has tightened security at its border crossings, though that means little on such a porous border, populated by ethnic Somalis on the Kenyan side. The Kenyans did make a few arrests of fleeing combatants, apparently including a commander from an Ethiopian separatist group and an Eritrean army colonel, each carrying wodges of cash. Ethiopian military helicopters flew low over the hills, but their limited range made it difficult to flush out the Islamists. Their intelligence was also faulty; one helicopter accidentally strafed a Kenyan border post.

It has been an extraordinary fortnight in Somalia. From being holed up in Baidoa, surrounded by Islamist

forces, the internationally backed transitional government has achieved an astonishingly quick victory over its foes, albeit with Ethiopian tanks, planes and artillery. Having roared of a holy war on Ethiopia in October, the Islamists were shown to be a paper tiger.

With the benefit of hindsight, it is clear that the hardliners over-reached themselves, making some serious miscalculations. The first was to make a deal with Eritrea, the local pariah state, for arms and military trainers—some of the arms coming from third parties in the Middle East. That caused Ethiopia, Eritrea's greatest enemy, to step up its support for the weak Somali transitional government in Baidoa. Ethiopia has one of Africa's biggest armies, and, more importantly, an air force that proved to be highly effective in the brief campaign. Eritrean and other Arab meddling was also a factor in tacit American support for the Ethiopian intervention.

The second and more serious miscalculation of the hardliners was to dismiss a deal that moderate Islamists were close to making with the transitional government: many moderates thus refused to fight. The third mistake was to attack the transitional government and Ethiopian positions in front of Baidoa on December 19th. That gave Ethiopia the pretext it needed for a full-blooded assault on the Islamists. Their fighters were literally shredded on the battlefield. The bulk of the Islamists retreated to Mogadishu. Street-to-street fighting seemed inevitable when Ethiopia strafed its airport on December 25th. But the Islamists left soon after, saying they wanted to spare the city.

The prime minister of the transitional government, Mohamed Gedi, now wants to capture or kill the fleeing hardliners “at any cost”. Although the Islamist collapse was quicker than expected, the danger is that this convincing conventional victory for the Ethiopians may be followed by an Islamist insurgency, drawing in support from militant Muslims around the world. Indeed, it would be hard to find a better recruiting poster for would-be jihadists than the Russian-built tanks of “Christian” Ethiopia bogged down in a Muslim tropical paradise. In a Taliban-like phone call from the bush, an Islamist commander promised that the movement would “rise from the ashes”.

It may well. Already there have been several unexplained bomb blasts in Mogadishu, one of them directed at a hotel where Ethiopian army officers are billeted. Two Ethiopian soldiers were shot dead on January 2nd, probably by Islamists. There is a real possibility that what army types call “asymmetrical warfare” will include suicide-bombings, in Kenya as well as in Somalia and Ethiopia. One aim would be to stir up hatred between Christians and Muslims in the region. Among the key commanders now on the run is Aden Hashi Farah Ayro. His network has grown in the last months to perhaps 200 fighters. Mr Ayro is young, around 30, and is thought to have trained in al-Qaeda camps in Afghanistan. He is wanted for his suspected involvement in the killings of several foreigners in Somalia and Somaliland. He is one of those in charge of the sleeper-cells that are likely to have stayed in Mogadishu and elsewhere, waiting to strike.

Ethiopia claims to have killed 3,000 Islamists and wounded a further 5,000. The International Red Cross put the number of wounded at 850, with several hundred dead. The routing of Islamists on the battlefield by secular-minded Somalis backed by Ethiopia is certainly a major embarrassment for al-Qaeda: when faced with a chance to be a martyr in a *jihad*, nearly all Somalis shied away. But as in Iraq, everything depends on what comes next.

The dangers of returning to normal

The early signs are not promising. For a start, the warlords are back in town. The single greatest achievement of the Islamic courts was to provide a reasonably peaceful alternative to the chieftains who ruled Mogadishu and other towns, greedily and often demonically, following the collapse of the Siad Barre regime in 1991, the last time that Somalia had anything resembling a normal government. This is the main reason why the Islamists were able to gather the popular support that they did. Although the Islamists were austere, they delivered security, orderliness and even a sense of pride to many in Mogadishu. Where the warlords had roadblocks, the Islamists had street-cleaners.

The outside world's focus on the hardliners and their possible links with al-Qaeda often missed the influence of the moderates, particularly the large traditionalist Sufi organisations. They are among the biggest educators in a largely illiterate country, helping run Mogadishu University, where many of the classes are taught in English. The nominal leader of the Islamists, Sheikh Sharif Ahmed, was himself once a school geography teacher.

By contrast, feelings about the warlords are unequivocal. “They are absolute bastards,” says one Somali watcher, “illiterate, syphilitic, irrational killers.” Some are a little better than others, and several hold ministerial positions in the transitional government, but for the most part they remain motivated solely by money, including what they can make from moving arms and *qat*, the addictive narcotic leaf on which many Somalis waste their meagre daily salaries. If the transitional government does not stand up to warlordism quickly—and there are few signs that it will—it might be that Mogadishu's few months under “terrorist” Islamist rule will come to be viewed as a golden moment.

The return of the warlords may also presage a return to the clan violence that ruined Somalia. To avert this, Mr Gedi has called for three months of martial law in Mogadishu, presumably to be enforced by Ethiopian troops. But his insistence on voluntary disarmament looks optimistic. Most of Somali politics takes place at the sub-clan level, opaque to all but a few insiders, but the broad outlines are clear. The Islamic courts gained their initial support from the Hawiye clan, which controls Mogadishu. Hawiye elders feel under-represented in the transitional government. Mr Gedi is a Hawiye, but despised by his kinsmen. Any national reconciliation has to involve the Hawiye, so that may mean removing Mr Gedi from office, something that the transitional government and its backers oppose.

The presence of the Ethiopians gives Somalia a chance to rebuild, but it is a big problem too. Ethiopia deserves credit for the efficiency of its military campaign, which was partly conducted out of self-defence; its victories have eased the threat of an Islamist advance into Ethiopia and across the rest of the Horn. Even so, Somalis object to Ethiopians on their soil in much the same way that Irish citizens might object to a British military advance on Dublin, the more so since the Ethiopians are taken by many Somalis to be doing the bidding of America. A temporary stability guaranteed by the presence of Ethiopian troops offers no prospect of a lasting solution to the country's problems.

AP

Mr Gedi—with Ethiopian transport

For all its careful presentation, Ethiopia's involvement could already have fatally undermined the transitional government. At the very least it looks bad for Somali ministers to be ferried around in Ethiopian military helicopters, and to be receiving instructions from the Ethiopian foreign minister. Ethiopia's prime minister, Meles Zenawi, is adamant that his troops will be out of Somalia within weeks. But the timing of such a withdrawal has assumed critical importance. A hasty exit could precipitate clan fighting in Mogadishu. A lengthy stay will give cause to an Islamist insurgency—and provide the insurgents with targets.

For now, Mr Zenawi will press home his advantage. Slaughtering Islamists in the mangroves may earn Ethiopia the enmity of global jihadists, but it will win the widely unpopular Mr Zenawi much-needed political support at home and cash from a grateful America.

Putting the country back together again

But killing the hardline Islamists will not make Somalia any more peaceful. Only a few of those on the

run are proper terrorists. Some could return to play a useful role in a government of national unity—perhaps the best chance of preventing Somalia from slipping back into its customary civil strife. Mr Ahmed, a Hawiye, has useful connections with clerics, clan elders and the young. He might be an asset to a government of national unity, even if, in the first flush of victory, the transitional government might not see the need for that kind of concession. It will also be important to bring in the businessmen who backed the Islamists in return for protection from warlord militias.

A few weeks ago an international peacekeeping force seemed an unnecessary provocation. Now it looks like an imperative; it will take months for the transitional government to raise a proper national army to replace the Ethiopians. An intense diplomatic effort is under way in Nairobi and elsewhere to put a force on the ground within weeks. A UN-mandated force drawn from Muslim countries (Indonesia and Malaysia are popular choices among Somalis) could allow Ethiopian troops to leave gracefully. An African Union force may be less effective, given its seeming bias towards Ethiopia, where the organisation has its headquarters. The question is whether such a force can be deployed before clan fighting and an Islamist insurgency take hold.

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Saddam Hussein

The blundering dictator

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AFP

The life, death and uncertain legacy of an Arab villain and hero

IN THE spring of 1990, Iraqi state television commemorated Saddam Hussein's 53rd birthday by playing, over and over, extended footage of the leader touring an art gallery. Room after room, the display consisted entirely of works sent as birthday tributes. To the jolly strains of Mozart's “Eine Kleine Nachtmusik”, Iraq's president and his train of uniformed henchmen nodded, smirked and gestured appreciatively before paintings featuring Saddam, Napoleon-like, atop a rearing white stallion, or Saddam, commanding a tank, gesturing towards a blazing battlefront, or Saddam, in profile, facing the Dome of the Rock, clad in the chain-mail tunic and spiked helmet that Saladin, the Muslim liberator of Jerusalem, was made to wear in Egyptian costume dramas.

This was springtime indeed for Saddam Hussein. He had recently emerged undefeated from the winter of a bloody eight-year war with Iran, and had just successfully crushed another Kurdish uprising. This fatherless son of dirt-poor peasants, raised by better-off relatives, who had been given the ungainly name of Saddam (a conjugate of the Arabic words for “shock” and “collision”), had already ruled Iraq for two decades. He had eliminated all rivals, cowed the potentially restless Shia majority and packed the state with his own trusted relations. Museums, hospitals, parks and whole cities bore his name.

And then he blew it all by invading Kuwait, the small, rich neighbouring emirate, on August 2nd 1990. Asked in later years, following his capture in a “spider hole” by American invaders, why he had done this, Saddam first blustered that it was because Kuwait was rightfully Iraq's 19th province. Then, in his slightly nasal whine, he growled, “When I get something into my head I act. That's just the way I am.”

Saddam Hussein was one of the last of the 20th century's great dictators, but not the least in terms of egotism, or cruelty, or morbid will to power. He rose fast, like Stalin and Mao, from within an ostensibly secular, progressive political party. In Iraq's case this was the Baath, or Renaissance, Party, a vehicle which he ultimately transformed, through terrifyingly capricious ruthlessness, into a fascistic tool for his own absolute control. Like Enver Hoxha of Albania or North Korea's Kim Il Sung and son, Saddam succeeded in turning the entire apparatus of the state into an expression of his own paranoia. His rule cost the lives of perhaps half a million Iraqis. Two-thirds fell in unnecessary wars; the rest were civilian “enemies”, rounded up and shot, usually by firing squad.

Yet, like those other thuggish rulers, Saddam won not just fawningly insincere adulation but a surprising degree of support from his people. Much took the form of a Stockholm Syndrome-like response to captivity, whereby hostages end up sympathising with their captors. Yet Saddam attracted real constituents, and not only from the favoured among his own clan, tribe and fellow Sunni Muslims. If police repression was politically deadening, it did also mean security from such historical Iraqi plagues as coups, tribal vendettas and religious strife. Baathist secularism promoted such modernising trends as inter-faith marriage and scientific education. The state ideology was rigid but it did, in a way, succeed in strengthening Iraq's fragile sense of nationhood. For many Iraqis, Saddam inspired pride.

A hero to many Arabs—and the West

Saddam was luckier than rival dictators in one major respect. His rule coincided with a huge surge in oil revenues. During the 1970s, a relatively peaceful interlude when he exercised real control as second-in-command to a weak president, dozens of ambitious projects swiftly created a first-class infrastructure of expressways, power lines and social services. In neighbouring countries, the oil boom generated garish consumption and commission billionaires. Iraqis could fairly claim that their national wealth had been used instead to create a broad, home-owning middle class, the symbol of which was the “Brazili”, a stripped-down Volkswagen bought by the million from Brazil. Generous state subsidies lifted even the very poor out of need. Corruption was unknown.

Much as Adolf Hitler won early praise for galvanising German industry, ending mass unemployment and building autobahns, Saddam earned admiration abroad for his deeds. He had a good instinct for what the “Arab street” demanded, following the decline in Egyptian leadership brought about by the trauma of Israel's six-day victory in the 1967 war, the death of the pan-Arabist hero, Gamal Abdul Nasser, in 1970, and the “traitorous” drive by his successor, Anwar Sadat, to sue for peace with the Jewish state. Saddam's self-aggrandising propaganda, with himself posing as the defender of Arabism against Jewish or Persian intruders, was heavy-handed but consistent as a drumbeat. It helped, of course, that his *mukhabarat* (secret police) put dozens of Arab news editors, writers and artists on the payroll. As a result, to many poorer Arabs, his lunge for Kuwait, and the subsequent, strategically inconsequential lobbing of 39 Iraqi Scud missiles at Israel, appeared as Robin Hood-like acts of retributive justice.

Refuge in Islam

Following the debacle of Operation Desert Storm, America's crushingly efficient counter-thrust, Saddam hastened to burnish his tarnished lustre by switching to a new posture as a champion of Islam. The cry of *Allahu Akbar*, Mighty is God, was added to the Iraqi flag in a script modelled on the president's own. With his country now besieged under UN sanctions that systematically impoverished its middle class, Saddam posed as the victim of a relentless American-led campaign to weaken and hold back the world's Muslims. While few took his religious pretensions seriously, this message meshed with a growing sense among Muslims, fanned assiduously by a resurgent fundamentalist movement, of thwarted ambitions and generalised victimhood.

Saddam's showy return to the faith was perhaps not entirely cynical. It was in some ways an expression of his feeling of having been used, then betrayed, by the West. Back in the late 1950s, when Saddam consecrated his party membership by wielding a pistol in a botched assassination attempt against Iraq's then president, Abdul Karim Qasim, the Baath was favoured by Western powers as a foil to both the powerful Iraqi Communist Party and to the pro-Russian Nasserists. The West welcomed the 1968 coup that brought Saddam into power. When he invaded revolutionary Iran in 1980, America and its allies helped quietly but generously with credits, arms and satellite intelligence. Later, they turned a blind eye to his use of chemical weapons, first against Iranian soldiers and then against his own unruly Kurds. Donald Rumsfeld paid the Iraqi leader a courtesy visit in 1983. For a time, the CIA helpfully contended that it was Iran, not Iraq, that had dumped poison gas on the Kurdish city of Halabja.

Many Arabs still contend that America goaded Saddam to invade Kuwait, by pushing the emirate to provoke him by demanding repayment of wartime loans and then telling the dictator that America would not intervene in inter-Arab disputes. More likely, Saddam simply overplayed his hand. As April Glaspie, America's ambassador to Baghdad at the time, said, “Obviously, I didn't think, and nobody else did, that the Iraqis were going to take all of Kuwait.”

Saddam's brashness, and the criminal abandon with which his officers looted Kuwait, stripping even the marble from its palaces to add to Saddam's own, revealed for all to see his nature as an unworldly and

power-mad brute. His isolation from reality, the now rapidly increasing venality of his family and regime and his lack of judgement in dealing with the world led to his final undoing.

Chastened by defeat, Saddam actually did move in 1991, as demanded by the UN, to dismantle his programmes to build weapons of mass destruction. Yet having built his power on fear, he was loth to admit that he had been de-clawed, and so allowed the interminable and ruinous saga of sanctions to continue. To a dwindling constituency of Arabs, his posturing continued to inspire a certain awe, mixed with sympathy for the apparent underdog. But to the rest of the world he had become the perfect villain. As news leaked from Baghdad of the murderous excesses of his sons and of the vicious retribution meted out to Shias in the south, who had the temerity to revolt, it became easy to label him as a kind of devil incarnate.

AP

A martyr to some

Following the terrorist attacks on New York and Washington of September 11th 2001, Saddam's mix of obduracy, ambivalence and belligerent rhetoric attracted the interest of an American administration that was keen to persuade its public that the superpower was doing its utmost to prevent future attacks. To powerful neo-conservatives, a strike against Iraq was appealing for several reasons. It would send a blunt message to malingering governments everywhere. It would place American troops in a position to threaten other alleged sponsors of terrorism, such as Iran and Syria. And, it was presumed, the overthrow of a dictator such as Saddam would be greeted with cheers, and stimulate a domino effect of democratic change in a region whose repressive rulers had primed their youth for Islamist extremism.

As the world now knows, such dreams built Saddam into a far greater catch than he proved in fact to be. The famous weapons of mass destruction did not exist. His capture, eight months after the fall of Baghdad, was little more than a brief flash of triumph in a remorselessly darkening sea of gloom. Rather than melting away at the sight of its presumed leader's humiliation, Iraq's burgeoning Sunni insurgency gained strength, since it could now claim to act out of pure nationalist motives, dissociated from the criminal past of the tyrant. America's adventure, immensely costly in terms of blood and treasure, turned into a debacle.

Towards the gallows

The Iraqi state that Saddam had created was dismantled, but with such crudeness that the wider polity he had built also began to fall apart. As it did so, cracking with ever greater force into Sunni, Shia and Kurdish components, a slogan appeared on Baghdad's walls: “Better the tyranny of Saddam than the chaos of the Amerkan.” In captivity and then during a messy, ill-conducted trial, the reviled dictator began to regain stature among his core Sunni constituents. The sordidness of his hanging, and its ugly timing on the day of the Muslim Feast of Sacrifice—contrasting with his composure before death—reinforced the Sunni sense of injury at the hands of what many see as a puppet sectarian regime. In Saddam's final communication to the world, a letter released following his conviction for crimes against humanity, he adopted the role of a martyr to the nation, calling nobly for Iraqis to unite and to forgive invaders for their leaders' folly.

It is difficult to judge what Saddam's legacy will be. Many Iraqis, especially among the Kurds and Shias, rejoiced at his death. Others simply shrugged at the inevitable passing of a delusional has-been. But quite a few regret his departure, less out of admiration for the man than out of sadness for the deeply flawed but at least secure and predictable Iraq they have lost. And in Iraq and beyond the rage against the world felt by many other Arabs and Muslims, which the dictator once harnessed, has yet to be assuaged.

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Bulgaria and Romania

The new kids on the block

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AP

The European Union's two newest members, Bulgaria and Romania, are both economically and politically backward

WILL it work again? It is tempting to join the revellers in Bucharest and Sofia who seem to believe that European Union membership promises untold riches. The eight ex-communist states that joined in 2004 have done pretty well. Bulgaria and Romania are already growing strongly; EU money will help.

Yet the Balkan pair differ from their predecessors. Bulgaria's GDP per head in 2005 was only $3,480 and Romania's $4,490—against $9,240 for the eight entrants in 2004, and an EU-wide average of $29,330. And they are backward in many other ways. Infrastructure and public services are worse than in the rest of eastern Europe; corruption is more entrenched, and the political culture more fragile.

Although united by weak institutions and their poverty, Bulgaria and Romania differ in size, history, politics and economic structure. Romania, with some 22m people, is the second-biggest eastern European country after Poland. Bulgaria is just over a third as big. This could be a plus, as small countries' elites often work better. But Romania's political class has recently outscored Bulgaria's. Big countries also matter more to foreign investors.

Both countries are on the edge of the EU, but whereas Bulgarians feel out of the mainstream, Romanians do not. They see themselves as a Latin outpost in a sea of Slavs. Their language is linked to Italian and French. Bulgarian is a Slavic tongue, as close to Russian as Danish is to Swedish.

Each has a sizeable ethnic minority from a neighbour. In Romania some 7% of the population are ethnic Hungarians. The Hungarian minority's party, the HDUR, is a fixture in coalition governments, which has blunted its reforming edge. About 9% of Bulgaria's population are ethnic Turks, poorer and less educated than their fellow citizens. Their party, led by Ahmed Dogan, is a frequent target of complaints by anti-corruption campaigners. Both countries also have big Roma (gypsy) populations, often living in abominable conditions, worse than under communism.

The Balkan pair view Russia differently. Bulgarians thanked Tsarist Russia for liberating them from the Ottomans, and many recall communist rule as a time of modernisation. To Romanians, Russia is a predator. It took an eastern province from them in 1812. Romania regained it in 1918 and lost it again to the Soviet Union in 1940-41. This region, plus a strip of land bordering Ukraine, is now Moldova.

Romania, under its president, Traian Basescu, is a bastion of Atlanticism in the Black Sea region. Bulgaria is largely passive in foreign policy, though it has good relations with Russia. Bulgaria's prime minister, Sergei Stanishev, studied in Moscow; past Romanian leaders did so too, but to admit it now would spell political doom. Mr Basescu decries communism as criminal, but Bulgarian leaders only mumble.

In politics, Romania is noted for the recurrent conflict between Mr Basescu and his prime minister, Calin Popescu Tariceanu. Only the need to get into the EU has held Mr Basescu's Democratic Party together in government with Mr Tariceanu's National Liberal Party. In Bulgaria the prime minister and president come from the same party. But the coalition combines the Socialists (ex-communists), quasi-monarchists led by former King Simeon II and Mr Dogan's lot. Elections may take place in both countries this year.

Joining the EU has meant intense pressure to meet Brussels standards, which neither country yet does. The biggest worry is lawlessness. In Romania this takes the form of corruption; in Bulgaria, of organised crime. Criminal-justice systems are weak, and high-level sleaze widespread. Romania has made more progress: its non-party justice minister, Monica Macovei, is an effective administrator who has shaken up the structure and accountability of the judiciary and the prosecutor's office.

Bulgaria has moved more slowly. Some politicians still seem untouchable, as do some organised-crime groups. A recent OECD study rates Bulgaria higher for investment promotion, but Romania higher on anti-corruption and business integrity. Some senior Romanian officials and politicians have lost their jobs and even their freedom. The investigation of a former prime minister, Adrian Nastase, is a contrast to the immunity that Bulgaria's political class still enjoys.

Managers with experience in both countries say that Romanians are more individualistic than Bulgarians. “In Romania the problem is getting them to work in a team. In Bulgaria the problem is getting them to show any initiative,” says one. Higher education is bureaucratic and complacent. Infrastructure is dire; transport links between the two countries are awful, with just one road bridge across the Danube. A big road programme in Romania is bogged down in tendering scandals. Improvements will take EU cash, which may add 2% to GDP in 2007-13. It is hard to be confident that it will be well spent.

The main macroeconomic difference is that Romania's currency floats, whereas Bulgaria's is pegged to the euro. Both countries have huge current-account deficits: Bulgaria's was some 13.5% of GDP in 2006, Romania's 10.3%. Continuing inflation means that euro adoption is at least a decade away. Romania's demographic outlook is good by post-communist standards, with only a mild population decline that is expected to slow as income levels and health care improve. But Bulgaria's is one of the worst in eastern Europe: its population will fall below 7m by 2020.

Then there is emigration, encouraged by low pay, poor working conditions and bad public services. As many as 2m Romanians and 800,000 Bulgarians live abroad. Entry into the EU may stimulate emigration, though most existing members have slapped on temporary labour-market restrictions. That is partly because immigrants from Poland and other countries were more numerous than expected.

Both countries' borders are leaky. Moldovans can work easily (if not always legally) in Romania, as can Macedonians in Bulgaria. Although the two governments try to restrict the issue of passports to ethnic kinsfolk in these neighbours, they cannot stop them coming.

Romania has the advantage of size, demography and a newly confident elite that wants to put the country on the map of Europe. Bulgaria has a stronger industrial base. But given the political chaos that has taken hold in other eastern European countries, most of them much richer and stronger than the two newcomers, it is clear that the Balkan pair's road to EU prosperity and stability will be harder. The only question is how much.

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Spain and ETA

Bombers return

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By returning to violence, ETA has scuppered lingering hopes of peace

EPA

Surveying the peace process

DIEGO ESTACIO had nodded off in his car on December 30th at Madrid's Barajas airport, where his girlfriend was meeting relatives off a flight from Ecuador, when a nearby van, packed with perhaps 500kg of explosives, blew up. The blast did more than end the 19-year-old Ecuadorean's life; it destroyed hopes of peace with the Basque separatist group, ETA, which seems to have been responsible.

Far into the middle of the week rescue workers were still searching for Estacio's remains after they had found those of a second victim, Carlos Palate. Meanwhile José Luis Rodríguez Zapatero, the prime minister, was wondering if anything could be salvaged from the wreckage of a peace process that began when ETA declared a “permanent ceasefire” last March.

The prospects are bleak. Mr Zapatero's repeated insistence that the peace process remained on track now looks foolish. He has used up a lot of political capital trying to solve the country's most obdurate regional terrorist problem. His reward is the first killings by ETA in more than three years. And his political position is worse than that implies. The opposition People's Party leader, Mariano Rajoy, consistently gave warning that ETA should not be trusted. The bombers have handed the PP a particularly valuable new-year gift.

ETA has had little regard for the constraints under which Mr Zapatero must operate. A PP demand that ETA be forced into unconditional surrender may be unrealistic, but adding two more to the roll-call of 800 victims killed in the past four decades can only increase its appeal. Some insist that ETA still wants to talk. But the interior minister, Alfredo Pérez Rubalcaba, declared this week that the peace process was “broken off, liquidated, finished”.

So what happens if Mr Zapatero gives it up? One possibility is that ETA will split. Some of those who have pushed for peace, including many of the several hundred ETA prisoners in Spanish jails, have lost their taste for violence. But a hard core can always be counted on to keep reaching for the bomb or the bullet. After the theft of 350 pistols and large quantities of ammunition in a raid on a French arms supplier in October, the group is not thought to be short of weapons. And there is enough grassroots support among radicals in Basque cities and hill towns to keep the hard core supplied and protected.

Does it matter? ETA is now a pale version of the efficient, and terrifying, killing machine of the 1970s and

1980s. It had failed to kill anyone at all in the 34 months before the ceasefire. It poisons the political atmosphere in the Basque country, but its political impact elsewhere has diminished over the past 15 years.

The biggest fall-out from the bomb will be felt in the Basque region itself. Basques are divided between traditional Spanish centralists and those favouring more self-rule or even independence. Moderate Basque nationalists have spent much of the past decade trying to wean ETA off violence. They have paid a heavy political price, losing opportunities to negotiate greater self-rule. Last year Mr Zapatero conceded new powers of self-government to Catalonia and Andalusia. The moderate nationalists running the Basque region may now opt to join the queue and abandon ETA, still treated by some as a prodigal son, to the police. The police have proved remarkably efficient in pursuing ETA over the past decade, partly thanks to better co-operation with their French counterparts.

ETA may have hoped that its airport bomb would not kill anyone, allowing the peace process to be kept alive. It telephoned three warnings in the hour before the explosion. But bombs are lethally unpredictable. Now the goodwill generated by the ceasefire has been blown away. If ordinary Spaniards shun peace, Mr Zapatero will not try to push them there. It took considerable political courage to travel as far as he already had. ETA is, at best, drinking in the last-chance saloon. More likely, Mr Zapatero may have already walked out of the bar.

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Germans and time

Slow, slow, quick, quick, slow

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A changing relationship between a nation and its clocks

RISING bright and early on a Saturday used to be a matter of survival in Germany. Until the 1990s most shops closed for the weekend at 2pm. Today you can shop into the wee hours every day except Sunday. In most German states shop hours are, or are about to be, fully liberalised. That should lay to rest the myth that Germany is irredeemably anti-consumer (although quality of service still leaves much to be desired). But it also reveals a change in attitudes to time.

Germans have long fretted over time. Wasting it is *verboten*; punctuality is required. When Robert Levine of California State University in Fresno tried to measure the speed of life in different countries some years ago, Germany proved the third-fastest (behind Switzerland and Ireland). The country's austere Protestantism helps to explain this, but so may a culture of industrial might. The efficient division of labour requires a tight schedule. And the family model of a lone male breadwinner set a broad daily framework. With few mothers working, shop opening hours could be short, schools could open for only half the day (most start at 8am) and child-care assistance was superfluous.

Yet with the economy increasingly driven by services, this time corset is gradually loosening. More than half of employees now set their own working hours. As many as two-thirds of all women work, up from half in the 1970s. Then there is digital technology: instead of arriving on the dot, you can send a text message apologising for being late (with nearly 25 billion messages sent in 2005, Germany is one of Europe's text-messaging champions).

Even so, many Germans seem to have trouble adjusting to their new flexibility. There are objective reasons, such as the continuing lack of child-care facilities, that make it harder for mothers to combine jobs and children. The many Germans without children still complain of stress, even though women work less than in many other countries.

In part, this is all an outcome of rising wealth and ever more distractions. Yet there are also cultural barriers that keep Germans from using their time better. One is a bias against hiring help, which many see as akin to slavery (high labour costs also count). Germans spend much time toiling at home unpaid: few other places have so many home-improvement stores.

This being Germany, academics are busy analysing the subject. Karlheinz Geissler, an educational pundit, argues that society must preserve its “slow-go areas”, such as shopping-free Sundays. Supported by trade unions and churches, he has founded a society to lobby for slowness. But Stefan Klein, author of a bestseller about time, does not want to turn back the clock. To him, the problem is not the speed of life but a loss of control. Germans, he argues, must become masters of their own time instead of mourning the passing of temporal crutches.

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France and tax

Tax 'n' wealth and rock 'n' roll

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An ageing rock star triggers a fiscal controversy

SOMETIMES it takes a rock star. By moving to Switzerland to flee punitive French taxes, Johnny Hallyday, France's 63-year-old rock idol, has set off a new debate. Many other high-earning French celebrities have become tax exiles, prompting periodic moral outrage. But this departure is politically embarrassing: Mr Hallyday's friend, Nicolas Sarkozy, is set to be the centre-right's presidential candidate. “If he reforms the wealth tax and inheritance law,” Mr Hallyday told *Paris-Match*, “well, then I'll come back to France.”

The still-touring singer, whose grip on public affection in France is matched only by his obscurity elsewhere, says that 70% of his earnings go to the state. He has a particular gripe about the annual wealth tax, or ISF, which is applied to almost all assets, whether revenue-generating or not. It kicks in at €750,000 ($995,000), at a rate of 0.55-1.8%. Nearly 400,000 people now pay it, a figure that has risen with property prices. Even Thierry Breton, the finance minister, once called the wealth tax “economically dangerous”.

There has been much indignation since Mr Hallyday's exodus, and not only on the left. President Jacques Chirac, whom the rock star has long supported, said that he “slightly regretted his behaviour as a citizen.” Ségolène Royal, the Socialist presidential candidate, said top earners should “set an example” and pay their taxes without a fuss. François Hollande, the party boss (and her partner), chipped in that the Socialists would reverse all income-tax cuts for high earners made since 2002 and abolish a new law designed to limit any individual's total tax burden to 60% of income. Arnaud Montebourg, a Socialist deputy, accused the rock star of blackmail and demanded repayment of any local subsidies received on tour.

It is Mr Sarkozy who finds himself in the most awkward spot. He has long argued for lower taxes, and he wants to end the popular suspicion of wealth. But a promise to help the rich could be an electoral liability. His party's parliamentary manifesto says only that it will explore the option of exempting principal residences from the ISF. Mr Sarkozy has yet to unveil his own presidential manifesto: this will await his nomination as the ruling UMP's official candidate (he is unopposed) on January 14th.

At last summer's UMP party conference, Mr Hallyday's front-row presence injected a bit of glamour into a staid event. Unless Mr Sarkozy makes a gesture towards bolder tax reform, he may have to look elsewhere for star quality.

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Charlemagne

A monster lives again

Jan 4th 2007
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Peter Schrank

European leaders are about to squander their second chance to get the constitution right

Get article background

WHEN French and Dutch voters rejected the European Union constitution in the summer of 2005, the continent's grandees reacted with dismay verging on panic. “Europe is not in crisis,” said the ever-quotable prime minister of Luxembourg, Jean-Claude Juncker, “it is in deep crisis.” Yet that was always nonsense. The constitutional treaty was a dog's dinner, and its rejection created a precious second chance to go back and get it right. The time to act on that chance has now arrived, with the start of the German EU presidency; for the Germans have promised to make reviving the constitution their top priority. But the opportunity for a second go is likely to be squandered.

The argument for a new constitutional treaty was that it would bring to an end the series of constitutional upheavals that had been the EU's preferred method of achieving “ever closer union” for many years. These upheavals have created an organisation that is impenetrable to ordinary voters, and have undermined democratic accountability and popular support (the latest Eurobarometer opinion polls show yet another slump in the club's popularity). A proper constitution would have distributed power between the different branches and levels of government (the second being more important, since the EU is a supranational organisation). And it would have tried to make those who exercise power more accountable.

Instead the document that emerged in 2004 did something rather different: it sought to make the EU's institutions more efficient. It did so through such ideas as reducing the size of the commission; stripping countries of national vetoes in some areas; scrapping the six-monthly rotating presidency; and having one person, not two, to represent the EU in foreign affairs.

There is nothing wrong with greater efficiency. There is even a certain logic in arguing that expansion of the EU—both to new countries and to new policies—requires more efficient institutions. After the entry of Bulgaria and Romania, the union has 27 members, compared with 15 when the constitution-writing game began. However, this is not quite as decisive a point as it seems, since it is hard to think of any big thing that the union has been unable to do as a result of not having its new constitution—and easy to find big

decisions (a new budget; peacekeeping ventures; the opening of membership talks with Croatia and Turkey) that it has managed to take despite that handicap.

In any case, the benefits of institutional efficiency are not the same as the benefits of constitutional stability. The first accrue mainly to national governments; the second (predictability, accountability, democratic control) to citizens. The Laeken declaration of 2001, which began the drafting process, laid down three aims for the drafters: to distribute power to the lowest level (in EU jargon, it should embody the principle of “subsidiarity”); to bring the union closer to its citizens; and to make the institutions work more efficiently. So far, constitution-builders have paid mainly lip service to the first two and focused instead on the third. The danger is that the German presidency will entrench this lop-sided approach.

One reason for this is the German government's desire for speed. Angela Merkel, the chancellor, told her parliament that it would be “an historical failure if we do not succeed in working out the substance of the constitutional treaty” by the next European elections in 2009. That means getting a new text ready by the end of 2007. She has promised to draw up a so-called road map for the future by the end of the German presidency in June 2007. Two special events in the next few months are designed to keep the pressure up: a meeting in late January of the 18 countries that have ratified the constitution, to demand action from the nine that have not; and a “Berlin declaration” in March to mark the 50th anniversary of the Treaty of Rome. This is a timetable for ramming anything through as fast possible, rather than one that attempts to produce a better constitution.

Bargaining time

A second reason for suspecting that this merry-go-round will exalt institutional efficiency above all else is the mooting of a “grand bargain” to get it done. Everyone knows that the text rejected by France and the Netherlands is dead. Everyone also knows that whatever replaces it will have to await the French presidential election in the spring and Tony Blair's handover of power in Britain (presumably in early summer).

But promises are already being made and trade-offs imagined. Nicolas Sarkozy, the official French centre-right candidate, is campaigning for a “mini-treaty” that would introduce super-majority votes in some areas, such as taxation, have the president of the European Commission elected by the European Parliament, and create a European foreign minister. This amounts to the institutional bits of the constitution, but little else.

As for the grand bargain, German diplomats are trying to find out whether Gordon Brown, Britain's prime-minister-in-waiting, would accept a stripped-down constitution as part of a deal that also promises reform of EU spending on agriculture and regional aid. Obviously, no one knows whether this deal will prove possible (what happens if Ségolène Royal, the Socialist candidate, wins in France?). But the intention and likely direction of change are clear: focus on the institutions, and offer non-constitutional concessions as sweeteners.

Meanwhile, one thing a constitution ought to make more orderly—haphazard integration outside the constitutional process—continues. The German government wants to harmonise legal rights of jailed suspects in the EU and let Europol investigate all serious cross-border crimes (it now deals only with organised crime). The likely outcome is that, instead of a constitutional settlement that enhances democracy and accountability, the EU may be heading for further constitutional instability, plus integration by stealth. Perhaps that is the aim.

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About sponsorship

Public-service broadcasting

The future of the BBC

Jan 4th 2007
From The Economist print edition

The Guardian

The BBC is set to get another ten years of public money. Technology is undermining the case for much more after that

Get article background

AS A boy growing up in the 1930s in the Midlands, Norman Painting, the son of a railwayman, listened to a new radio service from the British Broadcasting Corporation. His mother hoped he would get a job as a manager at the mine, but listening to the voices from London talking about world affairs, culture and music gave him other ideas. “The radio opened a door to the world,” says Mr Painting, who went on to Oxford University on a scholarship and became an academic before later working for the BBC's Radio 4 in its long-running soap, “The Archers”. “I often say that really I was educated by the BBC.”

Mr Painting's story helps to explain Britain's devotion to what it calls “public-service broadcasting”, and why the state has spent increasing sums of money—£3.3 billion ($5.9 billion) in the year to March 2006—on the BBC. Last year, after acrimonious debate, the government renewed its financing for the next decade through a compulsory flat “TV licence” on all households with televisions. It will soon announce the precise amount of money the broadcaster will get over the next six years. According to recent reports, the BBC will have to make do with annual increases below retail-price inflation, less than it asked for. Even so, it is fortunate to be handed a guaranteed income over several years. Among developed countries, only Germany's government spends more than Britain's on broadcasting as a share of GDP. America's dispenses next to nothing, preferring to leave it to the market.

For the next ten years the BBC's position looks secure. Yet it is getting harder to argue that the state should pay for it. The BBC's purpose, according to its first director-general, John Reith, was to “inform, educate and entertain”. “A redundant piece of voodoo,” said Michael Jackson five years ago when he was head of Channel 4, a commercially financed public-service broadcaster. He called Reith's mission “a paternalistic exercise in adult education by the wing-collared classes”.

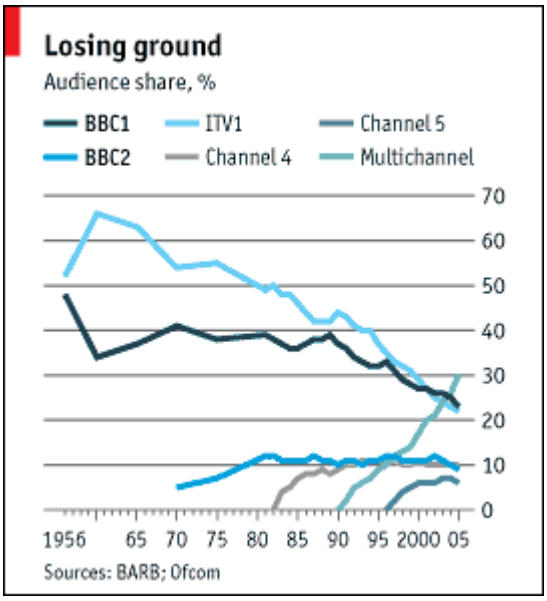
Whether or not his charge was correct, the BBC cannot now have anything like the educative effect it used to have. Though it remains Britain's dominant source of in-depth news and most reliable provider of high-quality programming, changes in technology and media habits are splintering its audience and making it harder to tag improving shows on to entertaining ones.

Serving what public?

It was easy to get the teenaged Mr Painting interested in Reithian fare because there was nothing else

on. That is no longer true. First the other terrestrials sprang up: ITV, followed by Channel 4 and then Channel 5. From the 1990s hundreds of new channels were launched on satellite and cable platforms, creating a new “multichannel” world. The rapid rise of the internet has also taken a toll of the old generalist channels. People are increasingly turning away from both the BBC and its terrestrial competitors (see chart).

Two decades ago the BBC commanded 47% of all television viewing and its rivals, ITV and Channel 4, shared the rest. Today BBC1 and BBC2, its terrestrial channels, account for just 33% of all viewing, and multichannel services (which include BBC3 and BBC4, both digital channels) win 30%. In homes with satellite or cable television, the corporation's share has fallen further: BBC1 and BBC2 together have just 23% of the former and 22% of the latter.



Young people especially are abandoning public-service programmers, according to Ofcom, the communications regulator. In 2001, it says, people between 16 and 24 spent 74% of their viewing time watching channels such as the BBC and Channel 4, but in 2005 only 58% of their time.

The BBC has good digital TV channels for young children, CBBC and Cbeebies. But around the age of 12 they begin to trickle away to MTV (a pop channel) and teen dramas such as Channel 4's “Hollyoaks”, says Ian Parkinson, a senior executive at Radio 1. The average age of BBC1 and BBC2 watchers is now 53 and 54 respectively—the highest of the five main TV channels.

Poorer, less educated viewers seem to be turning away, too. Serious material suffers most when people move to multi-channel television, says Ofcom, and particularly in poorer households. The BBC's “Correspondent”, “Newsnight” and “Horizon”, all current-events programmes, are watched by only half as many multichannel homes as by terrestrial-only homes. ITV's “Pop Idol” is watched by only 16% fewer. The drop in “Newsnight” viewing was 17 percentage points greater among poorer viewers than among richer ones. Soap operas, light entertainment, daytime TV, sport and lottery programmes attract a much higher proportion of poorer viewers, the corporation notes.

The result, says a BBC executive, is that “we are over-serving white middle-class 55-year-olds.” The BBC is trying to do something to widen its audience. In 2002, for example, realising that it was hardly reaching young black people, it launched a digital radio station called 1Xtra, modelled on pirate radio.

Some say the BBC fails to attract younger viewers because it takes too few risks. Channel 4, another public-service broadcaster, has a bit more youth appeal: the average age of its viewers is a sprightly 45. Kevin Lygo, its director of television, says that whereas Channel 4 is rebellious and questioning, many BBC television programmes are “full of integrity and truthfulness but also safe, respectful, backward-looking and all about heritage”. Many of the BBC's new and forthcoming offerings, such as “Doctor Who”, “Robin Hood” and “Sherlock Holmes”, are all “exhumed from the distant past”.

But good, innovative ideas have not entirely departed. Popular “Little Britain” is an offbeat collection of grotesque comic sketches, and “The Office”, a bone-dry comedy about a paper-supply company in Slough, has been copied by broadcasters in America, France, Canada and Germany.

The BBC has long tried to tack between high-minded and populist programming in an effort to get people to watch improving stuff that they would not have encountered otherwise. But technology, which increases consumer choice, is complicating this task.

“Hammocking”—scheduling worthy material between smash hits—is a familiar BBC technique. A recent adaptation of “Bleak House”, for example, was scheduled straight after “EastEnders”, a popular soap opera. But remote controls and video recorders have made hammocking less effective, says Jana Bennett, head of BBC television. “Now you can't even bring the horse to water unless it's really appealing.” In future Miss Bennett will try blitzing people with the same content over time across several channels and the BBC's website.

The BBC is also trying harder to conceal public-service themes beneath entertainment. Its approach to

ethnic minorities used to be a boring talk-show about discrimination late at night, says Simon Terrington, founding director of Human Capital, a media-consulting firm. Now it is cleverer, he says, with programmes such as “The Apprentice”. Aspiring entrepreneurs in this reality show get knocked out week by week; many of the most successful contestants are from ethnic minorities.

Making the most of it

If new technology and increased consumer choice are making life harder for the BBC, they also offer tremendous opportunities. The corporation already has ten digital channels and a website with 6m pages. Now it says that it needs to shift away from 24-hour schedules towards “on-demand” television—making everything it has ever produced available on the internet, much of it free—or risk being left behind.

That would be an enormous and costly undertaking. But “if the BBC doesn't compete successfully in on-demand”, says Richard Deverell, its controller of children's TV, radio and internet, “it is doomed in the long run.” In 2007, provided Ofcom gives the go-ahead, the Beeb will introduce its “iPlayer” service, which will allow viewers to catch up on recent TV programmes they missed.

Going on-demand means that the BBC could run on significantly less money. It currently pumps out large quantities of expensive programming around the clock and hopes that licence-fee payers will be at home to watch it. The corporation could waste less by producing a smaller number of programmes on demand and ensuring that licence-fee payers know about them. “We need to stop competing on quantity and spend more on fewer, higher-quality programmes,” says Mr Deverell. Mark Thompson, the BBC's director-general, believes that in some genres, such as news, weather and information, on-demand will require more content, but that in other categories, such as drama, it is quite possible that the BBC will indeed spend more on fewer programmes and make them more available.

Exploiting new technology could help the BBC make more money too, especially abroad, where it hopes in the long run to gain millions of new viewers and listeners. The BBC's commercial arm, BBC Worldwide, contributed £145m to BBC coffers last year and has also built up hundreds of millions of pounds of equity in pay-television channels in joint ventures with commercial companies over time. Worldwide now plans a new global network of production studios to allow the BBC to sell programmes made for overseas markets to commercial media firms around the world.

In future the internet will allow the corporation to sell to foreign consumers directly, an even more lucrative proposition. Mr Thompson says the BBC is looking at developing subscription products that could be sold overseas. The BBC's website, too, receives about a billion hits a month from abroad, and Worldwide will soon start making money from overseas users when it introduces an international version with advertising next year. “Ideally the BBC could arrange it so that Johnny Foreigner pays for us all to enjoy high-quality TV and radio at home,” says Simon Walker, a former BBC controller of corporate strategy.

But the corporation may be ambivalent about how hard it wants to push all this. If it becomes very profitable abroad, people will ask why it needs so much public money at home.

The people's telly

Debate has raged for years over whether the BBC should still be publicly financed, and specifically by a licence fee that is paid by all those with television sets. Many households, after all, now watch and listen to little of its output but almost all pay £131.50 a year for it.

The BBC hates the idea of losing its licence fee. Rather than go commercial, its bosses plan to keep fighting for public financing for decades. What are the chances that the government will decide that the BBC can fend for itself, taking away some or all of its public subsidy when the current charter runs out in 2016?

The rapid shift to digital TV makes the debate especially pressing. Set-top boxes can tell whether a household has paid for a channel or not. Soon it will be practical and easy for everyone to choose whether or not to subscribe to the BBC, or bits of it.

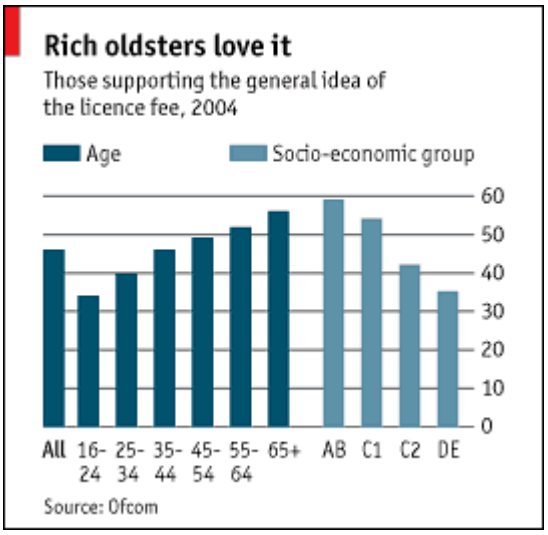
Towards the end of digital switch-over, which will happen between 2008 and 2012, the government will

examine other ways to finance the BBC after 2016. The likeliest change is that the television service would become partly or wholly subscription-financed. Radio would take longer to wean off public money because most radio sets now in use do not have the necessary technology.

Ditching the licence fee would be tricky politically: people care about the BBC, and meddling with it can be dangerous. Government-commissioned research released in September found that a majority of licence-fee payers would be prepared to pay more for current services than they do now, and far more for new offerings.

One argument for public funding of public-service broadcasting is stronger than ever, says Mr Thompson, and people in the current government tend to agree. Fragmenting audiences make it harder for commercial media firms to invest in expensive, high-quality original content. ITV's advertising revenues are falling rapidly, for instance, and in America NBC, a broadcast network, recently announced that it would stop showing expensive scripted programmes between eight and nine o'clock at night in order to cut costs. Most people agree that the BBC now makes some of the finest television and radio programmes in the world. “The argument for having pooled investment in quality content will prove persistent,” says Mr Thompson.

Another argument may be persuasive too. The Beeb is a powerful symbol of British culture at home, where unifying institutions grow ever thinner on the ground, and abroad. The government particularly enjoys the broadcaster's reputation in other countries. “It is probably more important for winning hearts and minds abroad than everything the Foreign Office does,” says a minister.



But the BBC is not equally loved by everyone. The rich and the old are keener on it than the poor and the young (see chart), who in effect subsidise the viewing and listening of more prosperous households.

The corporation's competitors are not thrilled with it either. After eight decades of living on public money, it already looms large in television, radio and magazines. Its lavishly financed website is making life harder for newspapers online. Regional papers and local radio stations are worrying about the BBC's planned expansion into “ultra-local” television. And the mooted shift to on-demand television particularly bothers commercial rivals such as ITV and BSkyB; they want to offer video-on-demand products on the internet and fear that the market could be stillborn if the BBC sends out thousands of hours of free archive content.

The BBC's impact on competitors worries Conservative politicians a great deal. David Cameron, the party's leader, said last May that small internet businesses could get squished like ants by the corporation. He called for new rules to stop it from charging thoughtlessly into new markets. If the Tories were to win the next general election, it just might run into trouble.

But executives at the BBC calculate that the broadcaster would not come high up on any Tory government's agenda, particularly this one's. So the corporation might keep its public funding for another charter period, from 2017 to 2026. “There's a lot of life in the old dog yet,” says a broadcasting policymaker. There could be more life still if both politicians and the corporation were to embrace the principle that lies at the heart of technology's impact on the media—consumer choice—and let subscriptions pay for at least some of the BBC's offerings.

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Northern Ireland

Closer?

Jan 4th 2007 | BELFAST
From The Economist print edition

A step towards power-sharing still leaves a way to go

WHEN republican leaders wedded for decades to IRA bloodshed said on December 29th that they were ready to call a special conference of Sinn Fein members to discuss support for policing in Northern Ireland, Peter Hain, Britain's secretary of state for the place, called the announcement “seismic”. He was not the first to use that word in that context. A year into the 1998 Good Friday agreement, Tony Blair hit on the same adjective to describe the IRA's willingness to lay down their arms. It was another six years before they did so.

The prime minister may have permitted himself a wry smile of recollection as he flew home early from his holidays on January 4th to try to save the latest lurch towards devolution. Acceptance by republicans of the authority of the Northern Ireland police is expected to clear the way for the unionists to agree to share power. But progress looks more sticky than seismic.

AFP

Cold feet, Mr Adams?

Peter Robinson, the deputy leader of the Rev Ian Paisley's Democratic Unionist Party (DUP), said that it would be “churlish not to acknowledge the historic potential” of the Sinn Fein leadership's movement on the matter. Mr Paisley, no stranger to churlishness, waxed less lyrical, calling it “begrudging”. He promised nonetheless that the DUP would not be found wanting if Sinn Fein matched words with actions.

But both sides—not for the first time—want more certainty than the other is willing to give. Sinn Fein says that the DUP response is not positive enough. It wants the unionists to say now that, if members accept policing, responsibility for administering justice should be handed over to a devolved Belfast government by 2008. DUP figures counter that Sinn Fein should just get on with it and sign up to policing.

Of course there is distrust on both sides. Some republicans find accepting the descendants of the hated Royal Ulster Constabulary (RUC) too bitter a pill to swallow. Plenty of unionists are unreconciled to sharing policing with those they blame for the deaths of hundreds of RUC officers. Mr Paisley has given his supporters little reason over the years to think he would ever do business with republicans, so rapid re-education may be in order.

Mr Blair will try to convince Gerry Adams, Sinn Fein's leader, and Mr Paisley that they really want the same thing—ie, devolution. If he cannot, the conference that was expected to be held later this month is probably off, and with it the hoped-for election on March 7th leading to the installation of a devolved Belfast administration on March 26th. But deadlines are as devalued as rhetoric in Northern Ireland. Only if Mr Adams and Mr Paisley both want to say yes will change—seismic or otherwise—occur.

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NHS woes

The going gets tougher

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Will Labour back-pedal on health-care reform in 2007?

FOR a government that is hypersensitive about its image in the popular press, the tabloids' coverage of the NHS on January 2nd made a painful start to the year. In a leader entitled “Sick waste”, the *Sun* said the health service was in a “shambles”. The *Daily Mail* despaired of the “chaos” into which the NHS had sunk after “ten years' mismanagement”.

The editorials were prompted by a scathing report from Reform, a right-of-centre think-tank. This claimed that the NHS had taken “a clear step backwards” in 2006—a year plagued by big deficits despite all the extra public money Labour has lavished on the health service.

PA

Hazel Blears, temporarily off-message

Naturally the health department rebutted the charge, arguing that the NHS was on the mend after a nasty bout of deficititis. But it is hard for the government to maintain that the health service is merely facing a little local financial difficulty (as Harold Macmillan, a former Tory prime minister, might have put it). Ministers themselves, including Hazel Blears, the relentlessly on-message chair of the Labour Party, have been campaigning against “reconfigurations”—the euphemism for cuts and closures—in their own constituencies.

It is a convention that members of the cabinet may break with collective responsibility in order to represent their local constituents. Yet this sort of behaviour would have been unthinkable in Tony Blair's heyday. Such a *sauve-qui-peut* mentality speaks volumes about political drift as ministers wait to see how committed to NHS reform Gordon Brown, the favourite to succeed Mr Blair, will be.

Mr Brown appeared sceptical about injecting more market discipline into health care—the main thrust of reform—in a speech that he made four years ago. More recently, he has given few clues about his intentions, other than to suggest last September that the NHS might be made independent, rather as the Bank of England was in 1997. Whether or not he pursues this policy, his priority will probably be to mute the constant political clamour about the NHS. Some suggest that he may replace Patricia Hewitt as health secretary with Alistair Darling, who calmed down transport politics after the rail network's disastrous performance at the start of the decade.

Administering a similar tranquilliser to the health service would be more difficult, however, even for the famously soporific Mr Darling. For one thing, the NHS has far greater political salience than transport. For another, the impetus to reform the health service—through, for example, more private provision of publicly financed treatments—is likely to peter out without a strong direction from the centre. Yet such uncomfortable change is essential if better value is to be squeezed from the swollen budget of the NHS.

In a sign of the difficulties that lie ahead for the government, the British Medical Association responded angrily to a draft policy of the health department's workforce strategy for the three years to 2010-11, details of which were published in the *Health Service Journal* on January 4th. The doctors' trade union took particular exception to the government's forecast that there would be 3,200 too many hospital consultants by 2010-11.

Labour has slipped behind the Tories as the party with the best policies on health care, according to Ipsos

MORI, a pollster. This is an astonishing reversal of Labour's long-held lead and an ominous portent for the party's chances at the next general election. The easiest way to regain ground may be to change the subject and to go slow on reform. Mr Brown has already shown a striking preference for talking about education rather than health care. An early test of his leadership will be whether or not he succumbs to the temptation to stop shaking up the NHS.

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Smoking ban

Stub it out

Jan 4th 2007
From The Economist print edition

New evidence shows the limits of a smoking ban

ANYONE who promised, in a boozy fug of new-year righteousness, to give up smoking in 2007 will have more than just their friends to egg them on—the government is keen to help too. The National Institute for Health and Clinical Excellence, which advises the National Health Service, has recommended time off for workers to help them quit, and says that new anti-addiction drugs should be available on the NHS. On New Year's Day the government said it would raise the legal age for buying cigarettes from 16 to 18 in October. The biggest change is the imminent ban on smoking in public places, such as pubs and restaurants. A similar prohibition has existed in Scotland since 2006, and Northern Ireland, Wales and England will all follow suit this year. Come July, Britain's public indoor spaces will be a smoke-free zone.

The law is controversial: accusations of nanny-statism and interference vie with public-health worries and the government's stated goal of persuading Britons to stub out. It wants smoking rates to fall to 21% of the population by 2010, compared with 24% today.

Much of the opposition has been led by pubs, which fear that smokers will be unable to endure nicotine-free drinking and will stay at home instead. A new study of the Scottish ban* suggests that their worries are well founded, at least in the short term: it found a 10% drop in sales and a 14% fall in customer numbers in the months after the ban.

Happily, evidence from Ireland, which banned workplace smoking (including in pubs) in 2004, suggests the remaining customers (and the bar staff) are healthier as a result. Research in pubs shows that at least some smokers would rather go without their nicotine hit than huddle outside for a fag. But not all the evidence is so pleasing. “The ban has cut smoking rates among older people,” says Luke Clancy, the doctor and former Trinity College Dublin professor who runs ASH, an anti-smoking group. “But it has had less effect on the young.”

Dr Clancy offers two explanations. The ban made little impression on young teenagers because they do not work and spend less time than their older peers in pubs, restaurants and other enclosed public places. Yet this is the group to target, since most smokers get the habit in their early teens. And official reluctance to raise tobacco duties (widely regarded as the most effective disincentive to smoking) in the wake of the ban compounded the problem. Combined with rapid economic growth, it has made cigarettes more affordable for young professionals too.

This limited impact on the young will worry British ministers. British tobacco taxes, although high, have not risen in real terms for six years. Hiking them would be unpopular, especially after a ban: John Reid, a former health minister, has described smoking as one of the “very few pleasures” available to the working classes. But if ministers are serious about cutting down, they will have to stiffen their resolve.

*“Short-Run Economic Effects of the Scottish Smoking Ban”, by J. Adda, S. Berlinski and S. Machin, *International Journal of Epidemiology*, December 2006

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About sponsorship

Junk food

A little less of what you fancy

Jan 4th 2007
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Regulating unhealthy foods is tough; defining them is even tougher

THERE are no bad foods, only bad diets. So say many nutritionists, who object to the demonisation of some foods as junk. On the evidence, then, there are an awful lot of bad diets around. Two Britons in five are now overweight, and another one in five is obese. A nationwide weigh-in of 11-year-olds last year revealed that at least a fifth were obese—and since being weighed was voluntary and larger children were less likely to step on the scales, this was no doubt an underestimate. In November it was announced that teenagers who are so overweight that their lives are in danger would be able to get their stomachs stapled on the NHS.

So Ofcom, the communications watchdog, has decided that it may be time for a little food demonisation after all. In the next few months it is to bring in a ban on advertising foods that contain lots of fat, salt or sugar during television shows that appeal particularly to children. A consultation on the final details has just closed, but the essential elements are already clear.

The basic idea is popular with parents, who see it as an easier option than deploying the off switch. But health campaigners fear that the details will lessen any impact the ban might have. A programme will be affected if its audience contains a large share of children, rather than a large total number. So specialist children's shows with an audience of a few hundred thousand will fall foul of the ban, whereas those such as “Coronation Street” and “The Simpsons”, which are watched by millions of children but also millions of adults, will not. And brand advertising, where no particular product is mentioned, will be exempt, even if the manufacturer sells nothing but, say, crisps.

There are also worries about the specific foods targeted. Ofcom is using a “nutrient-profiling scheme” commissioned from the Food Standards Agency (FSA), an independent body. Foods are awarded points for their good qualities (containing fruit or vegetables, say) and penalised for bad ones (lots of salt, sugar or fat). But the calculations are based on a 100g-portion of the food, so condiments such as Marmite and ketchup, which are never consumed in such large quantities, are out. And nutritionally valueless foods containing fat and sugar substitutes may pass muster, while nutritionally dense staples such as some cheeses will not. (Judith Bryant, the director of the Dairy Council and a nutritionist, points out that were breast milk for sale, it would fall foul of the ban. It is too high in fat and sugar.)

Sweden and Norway, which have the usual Scandinavian enthusiasm for public health, get round these definitional difficulties by banning all advertising to children. Food-industry defenders point out that their children are as porky as those anywhere else—though given the multiplicity of factors involved in fattening a population, it is hard to draw a firm policy conclusion from that evidence.

The immediate impact in Britain will anyway be limited, as these newly dubbed junk foods are not often heavily advertised. But there is more at stake than the food industry's interests. Giving anorexic teenagers yet another reason to starve themselves is a bad idea. And anyone cutting out entire food groups is likely to suffer vitamin and mineral deficiencies. Many girls already avoid dairy products because they fear gaining weight—but, partly as a result, more than a fifth of them have so little calcium in their diets that they risk going on to develop brittle bones.

This is not the only initiative on the menu to warn consumers off certain foods. Backed by the FSA, manufacturers and retailers are working on a “traffic light” scheme, with green, amber and red signs on the packaging of processed foods denoting whether their salt, sugar and fat content is low, medium or high.

But some in the food industry, including Kellogg's, a cereals manufacturer, and Tesco, a supermarket, say that traffic-light labelling is too simplistic. They prefer a rival scheme in which the percentage of a healthy daily intake of salt, fat and sugar provided by an average serving of a product is set out on its packaging.

Perhaps the real problem, though, is not poor diet but poor education. The FSA says it decided against this approach because, when it ran consumer tests, it discovered that people could not decipher such complicated labelling. They did not understand percentages well enough.

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Bagehot

Mr Brown's awfully big year

Jan 4th 2007
From The Economist print edition

Steve O'Brien

Gordon Brown will achieve his life's ambition in 2007. His problems are just beginning

UNLESS he is hit by the proverbial bus, 2007 will be the year of Gordon Brown. Tony Blair will cling on as prime minister for another five or six months, insisting that he can still accomplish something useful. But although the power that resides in Number 10 should never be underestimated, few other than Mr Blair himself dispute that he is now largely engaged in punctuating the postscript of his premiership.

Nor will David Cameron be as interesting as he was in his impressive debut year. Mr Cameron's capacity to win headlines by saying something surprising or counter-intuitive has already faded. This week his claim that the Tories, in contrast to Labour, would put the interests of the workers before those of the rich and powerful was met with a new-year yawn. But if the force is with Mr Brown, it does not mean that 2007 will be easy for him. This will be the most testing year of his political life by far.

Barring some extraordinary turn of events, Mr Blair will announce the date of his departure either just before or immediately after the local and regional elections on May 3rd. Those close to him say that he is set on attending the G8 summit in early June and the European Council meeting a fortnight later. This means that Mr Brown will have no more than a month to establish himself before politics slumps into its summer torpor.

Under those circumstances, the chancellor cannot afford to write off the next six months as a period of political limbo. But with no ground rules as to how he should behave in the situation he finds himself in, Mr Brown has concluded that until Mr Blair names the day, and until it is certain that the leadership will be uncontested, it would be dangerously presumptuous for him to behave like the prime minister-elect.

Such crippling caution is characteristic of Mr Brown. Senior colleagues, including Mr Blair, wish that he would give a clearer idea of what a Brown government will look like. But it is not easy for him. If he stresses continuity he loses the chance to distance himself from his damaged predecessor. If he talks up change he invites ridicule for his role over the past ten years.

The furthest Mr Brown has been prepared to go until now is to let an anonymous briefer tell a Sunday newspaper that he would aim to restore trust in politics by making the style of his government humbler and more austere than Mr Blair's. The same source also suggests, to hollow laughter from some quarters,

that Mr Brown will lead a government “of all the talents” that is free from faction.

Mr Brown's problems are compounded by the length of time that he and his close-knit team have had to prepare. The impression given is that every minute of the first 100 days has been plotted with the attention to detail of a first world war general's mobilisation plan. He wants to shock and awe with his strategic energy and purpose when the moment finally comes. But until it does, he seems locked in frozen inaction.

A further danger of this approach is that it will all seem too stage-managed, too carefully worked out in a different time and place. There have been heavy hints, for example, that Mr Brown wants to make constitutional reform an early theme of his government. But the timing might look distinctly odd if Labour's earlier devolution settlement had just resulted in the separatist SNP becoming the dominant party in Scotland—a possible outcome of the May elections and one that would prove a nasty start to Mr Brown's premiership.

Part of Mr Blair's genius lay (past tense already) in his speed of reaction and his ability to turn every crisis into an opportunity. Mr Brown will never be as light on his feet as Mr Blair, but as prime minister he must learn the capacity for manoeuvre.

If the next six months look tricky for Mr Brown, the six months that follow will be critical. He must give new momentum to failing public-service reforms at a time of budgetary stringency; calibrate his relationship with President Bush; respond to the German attempt to breathe new life into the European constitution; and somehow reassure overtaxed voters in London and the south-east that he understands their hopes and fears. None of these things will come easily to Mr Brown.

But harder still and, if anything, more important will be laying to rest the concerns that have been raised about his character, particularly by his former cabinet colleague, Charles Clarke, last September. Mr Clarke, it will be recalled, drew attention to Mr Brown's paralysing caution: “He is not a risk-taker and that matters. The courage question is a big thing for Gordon.” Mr Clarke also described Mr Brown as a “control freak” whose “massive weakness” is that “he can't work with other people”.

Gord help us

Mr Brown is no more likely to discover political dash than he is to become the kind of speaker who seduces rather than pummels his audience. But it is possible that in the top job he can at least learn to be a more generous and inclusive colleague. One test will be his treatment of John Reid, the home secretary and the only character in the government who is tough and fearless enough to stand up to him. Another will be his attitude towards David Miliband, the youthful environment secretary who is in the uncomfortable position of having already been installed as the favourite to succeed Mr Brown.

A somewhat ominous sign, however, is that nearly all the advisers Mr Brown wants to take with him to Number 10 won their spurs in Mr Brown's Treasury. The micro-managing ways of the imperial Treasury that has been his home for the past 10 years bear as much responsibility for Mr Brown's frequently criticised *modus operandi* as his own controlling instincts.

By next year Mr Brown will either have triumphantly confounded the doubters or he will be heading for disaster. Fascinatingly, it is impossible to say which is the more likely.

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Mormons

A modern prophet goes global

Jan 4th 2007
From The Economist print edition

AP

The Mormon faith is spreading. But is it a world religion?

LIKE any religious community, the Church of Jesus Christ of Latter-day Saints (better known as the Mormons) will always cherish the locations connected with its foundation story. Not only the places in New York state where its prophet, Joseph Smith, said he received a vision of God (in 1820) and then a new set of scriptures, or the faith's spectacular headquarters in Utah, the state where Mormon pioneers found refuge. Also dear to Mormon hearts are parts of northern and central England where, soon after Smith had his visions, the faith won many converts.

In those early days, people in Britain who accepted Mormon teaching were told to sail west and join the growing band of “saints” who were preparing for the second coming of Jesus, an event which was expected to happen soon, and in the new promised land, the United States.

But now, after a century of spectacular growth, the Mormon movement is flowing in the other direction: while it continues to be centrally directed from its headquarters in Salt Lake City, Utah, the faith has gained a foothold in virtually every country in the world—and the American share of church membership has fallen. In the north-west of England, for example, the Mormons want their converts to stay put and use their spanking new meeting-house and temple; and their keen young missionaries are as likely to be British or Danish (even, in one case, from Greenland) as American. And there is hardly anywhere (not even Mongolia, see picture) where the proselytisers do not reach.

Rodney Stark, an American sociologist, pronounced 20 years ago that the Mormon faith was on the way to becoming the first world religion to be founded since Muhammad; he thought the number of adherents might exceed 260m by the second half of the 21st century.

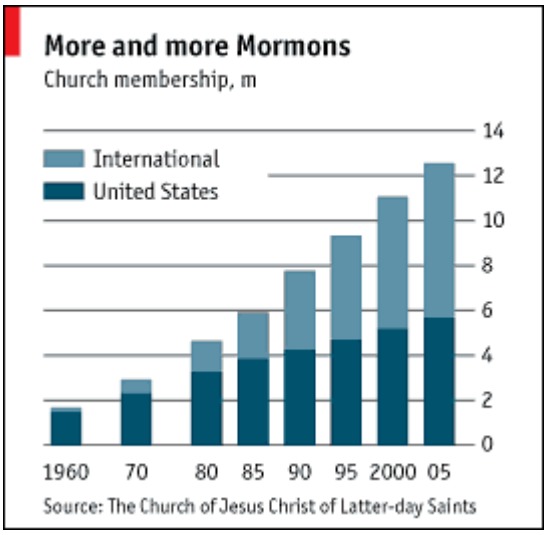
Since then, the rate of growth has eased a little, though it remains impressive compared with many Christian denominations. And the question of whether the Mormon faith really is a global religion—or an American one with many foreign adherents—still stirs arguments. Douglas Davies, a professor at Britain's Durham University, says the Latter-day Saints are too centralised to be a “world religion” in the full sense: only if different continents and cultures develop their own styles of Mormon worship can the religion be likened to universal ones like Buddhism or Islam.

For now, at least, the Mormons present as paradoxical a mix of American and global culture as any multinational with headquarters in the United States and customers across the world. When the Mormons

hold their twice-yearly conferences in Salt Lake City, the great majority of the 21,000 people present are American—but organisers take pride in the fact that proceedings are translated into 86 languages and broadcast all over the world. The book of Mormon—the text which Joseph Smith said he received—has been rendered, at least in part, in over 105 tongues.

The best-known adherents of the faith—from Mitt Romney, the Massachusetts governor and possible future president, to Brandon Flowers, a singer with the Killers rock group—are emphatically American. Of the "12 apostles" who form the faith's inner circle, only one was born outside the United States, and most are from Utah. But non-Americans, especially from the Spanish or Portuguese-speaking world, are inching up the hierarchy. One of the "quorum of 70" (the next layer of authority after the apostles) is Japanese and another British.

Wherever it goes, the faith retains a Middle Western flavour, with its mixture of social conservatism, philanthropy, worldly shrewdness and devotion to a core set of beliefs. The movement's president—seen *ex officio* as a "prophet"—is an unmistakably American figure, 96-year-old Gordon Hinckley. But he has travelled to every corner of the world and overseen a global programme of building temples—giant buildings where sacraments, such as marriage and baptism, take place.



The faith's fastest growth has been in Latin America—where native Americans warm to the Mormon teaching that they descend from a lost tribe of Israel, and the Roman Catholic church is often too stretched, or ideologically divided, to feed its notional flock. Out of a worldwide membership of 12.7m, Brazil and Mexico each account for about 1m. The ex-Soviet republics—another area where many people long for religion and older faiths are imperfectly organised—could in principle be fertile ground, but in practice pickings have been thin: there are 19,000 adherents in Russia and 10,000 in Ukraine.

Why do the Mormons attract followers while many other religions decline? Is it the aura of American prosperity, health and sobriety, which seems so appealing in an African village or a Mexican slum? Mr Davies thinks the most compelling feature of Mormon teaching is its confidence that death has been conquered: believers look forward with certainty to eternal life (with their spouses), and by conducting posthumous baptisms they can also save their dead forebears. For Margaret Barker, a Methodist scholar, part of the faith's power lies in its insistence that prophecy and divine revelation did not just happen once, a long time ago: the flow of messages from God is still in progress.

Despite the good relations they cultivate with world leaders, the Mormons' expansion is not always popular: the late Alexander Lebed, a Russian politician, once said they should be banned. And in Islamic countries Mormons face at least as many obstacles as other non-Muslim believers do. But paradoxically these two faiths have things in common. Like the Muslims, the Mormons believe God's covenant with Abraham, and the message of Jesus of Nazareth, were distorted by later generations—only to be corrected by their own prophet. And like the Muslims, the Mormons will be preachers in the world pulpit in the third Christian millennium.

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Afghanistan's opium crop

Much gain, less pain

Jan 4th 2007
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How one country's problem could ease the world's suffering

AP

An abundance of deadliness

SOPHIE-MARIE SCOUFLAIRE, the chief pharmacist for the French humanitarian agency Médecins Sans Frontières, has spent a lifetime watching people in disaster-stricken areas of the world writhing in pain—and she has put in many hours frantically trying to procure enough opiates to relieve her patients' agony.

That is surprisingly hard. Part of the trouble is that most countries are allowed under a United Nations regime to import only a very small quantity of narcotics for medical use—and governments are often slow to apply for an increase in their quotas. Sometimes, sincerely or otherwise, they say they doubt their own capacity to handle increased quantities of drugs. So in a real disaster MSF has to beg the local health ministry to seek an increase. And in places where no government exists, MSF doctors go straight to the UN for permission to import drugs on their own responsibility. But that process is burdensome.

Now compare the dire shortage of medical opiates that afflicts the poorest parts of the world with the deeply unwanted surplus of poppies that has just been gathered in Afghanistan. According to Antonio Maria Costa, director of UNODC, the UN drugs and crime agency, the 2006 harvest was a record; both the acreage sown and total output have risen sharply. Farmers have harvested about 6,000 tonnes, amounting to 90% of total world output.

Afghanistan's President Hamid Karzai, pointing to the links between the resurgent Taliban and the drug business, has called the opium trade his country's “worst enemy”. But farmers, flush with cash, have already been planting new crops. In response the American anti-drugs chief, John Walters, said last month that the United States planned to wipe out the crop by spraying the seedlings.

In defence of such an indiscriminate approach, it is pointed out that less drastic measures, aimed at persuading farmers to switch to legal crops, have failed. The farmers earn around three times as much from opium than from other crops; many say that they cannot support their families without the income they receive. And some complain that the Americans have already started spraying.

But a think-tank with offices in Europe and Kabul has made an alternative suggestion. Emmanuel Reinert, director of the Senlis Council, says Western governments should start pilot projects, at least, as a first step towards licensed poppy-growing to make essential medicines. He believes that it will prove impossible to eradicate opium production, and that trying to do so will play into the Taliban's hands. He also believes that by turning opium fields over to medicine production, the current shortage of opium-based medicines will be solved. The statistics cited in favour of this idea are indeed startling. UNODC figures for 2005 suggest that 80% of the world's population had hardly any access to morphine or other painkillers.

There are plenty of counter-arguments: would it ever be possible to offer farmers more money to sell their crop for medical uses than they now get from drug lords? Christopher Langton, an analyst with the International Institute for Strategic Studies in London, thinks licensing could work if it were introduced cautiously, using a mixture of carrot and stick. As he puts it: “If a farmer is faced with the choice of eradication or production under licence, he might compromise.” But allocating licences would be a

contentious affair, and might add to ethnic strife if badly managed.

Supporters of licensed production cite the example of Turkey, where in 1970 the government faced American demands for complete eradication of poppy farming. Suleyman Demirel, who was then prime minister, retorted that this would be bitterly unpopular, and successfully counter-proposed that the crop should be diverted to medical use.

Perhaps part of the solution might lie in an Australian discovery: a firm in Tasmania has made a variety of poppy in which the synthesis that leads to morphine is interrupted at the last moment. That makes the poppies more useful for the production of pain-killers and less handy for making heroin. If that does not work, here is an even bolder idea: an American security writer, Walton Cook, has argued that simply paying every Afghan farmer not to grow poppies would be cheap compared with the social cost of heroin use.

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Health consumerism

The wellness boom

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From The Economist print edition

Getty Images

Helping consumers to lead healthy lifestyles is becoming a big business

BACK in 1979, a fat, unhealthy property developer, Mel Zuckerman, and his exercise-fanatic wife, Enid, opened Canyon Ranch, “America's first total vacation/fitness resort”, on an old dude ranch in Tucson, Arizona. At the time, their outdoorsy, new age-ish venture seemed highly eccentric. Today Canyon Ranch is arguably the premium health-spa brand of choice for the super-rich. It is growing fast and now operates in several places, including the *Queen Mary 2*. It is also one of the leading lights in “wellness”, an increasingly mainstream—and profitable—business.

“There is a new market category called wellness lifestyle, and in a whole range of industries, if you are not addressing that category you are going to find it increasingly hard to stay in business,” enthuses Kevin Kelly, Canyon Ranch's president. (Mr Zuckerman, now a trim and sprightly 78-year-old, remains chairman of the firm.) This broad new category, Mr Kelly goes on, “consolidates a lot of sub-categories” including spas, traditional medicine and alternative medicine, behavioural therapy, spirituality, fitness, nutrition and beauty. As more customers demand a holistic approach to feeling well, firms that have hitherto specialised in only one or two of those areas are now facing growing market pressure to broaden their business. “You can no longer satisfy the consumer with just fitness, just medical, just spa,” says Mr Kelly.

Canyon Ranch's strategy reflects this belief. It is expanding a brand built on $1,000-a-night retreats for the rich and famous in several different directions. This year in Miami Beach it will open the first of what it expects to be many upmarket housing estates built around a spa, called Canyon Ranch Living. Together with the Cleveland Clinic, one of the world's leading private providers of traditional medicine, it is launching an “executive health” product which combines diagnosis, treatment and, above all, prevention. It also has plans to produce food and skin-care products, a range of clothes and healthy-living educational materials.

Already, the new world of wellness is becoming fiercely competitive. Canyon Ranch's rivals include several big, established firms. Sir Richard Branson's Virgin group operates Virgin Life Care kiosks in which people can earn spendable HealthMiles. Insurers such as WellPoint and Britain's PruHealth are rewarding people who take part in health-improvement programmes with lower premiums or bigger deductibles. Wal-Mart is selling organic food, and even Coca-Cola is launching a wellness drink (see article).

Perhaps the most interesting entrant to this nascent industry is Revolution, a firm set up in 2005 by

Steve Case, co-founder of AOL, an internet firm. He is attacking on several fronts, mostly by buying controlling stakes in small firms that have a big idea and a viable business model, and helping them to grow faster. One of these is Miraval-Life In Balance, a similar outfit to Canyon Ranch, which he hopes to turn into the “Nike brand of wellness” by expanding from its spas, which offer 130 different experiences from yoga to organic cuisine. New initiatives include Miraval Living residential estates—one opens soon in Manhattan—skin-care lotions and food. Revolution also owns Lime.com, a wellness broadcaster, and Exclusive Resorts, presumably on the grounds that luxury holidays are good for you.

In addition, Mr Case is rolling out Revolution Health, a consumer health-care business. It will offer online health information, insurance policies and new forms of health care, including walk-in treatment and screening in shops such as Wal-Mart, through its investment in a firm called RediClinic. Mr Case's partners in the venture include Colin Powell, a former secretary of state; Carly Fiorina, the ex-boss of Hewlett-Packard; and Jim Barksdale, a former head of Netscape.

Doing well by helping you feel good

There is growing evidence that focusing holistically on wellness can reduce health-care costs by emphasising prevention over treatment. Mr Case reckons that one of the roots of today's health-care crisis, especially in America, is that prevention and care are not suitably joined up. A growing number of employers now promote wellness at work, both to cut costs and to reduce stress and health-related absenteeism, says Jon Denoris of Catalyst Health, a gym business in London. He has been helping the British arm of Harley Davidson, a motorbike-maker, to develop a wellness programme for its workers.

The desire to reduce health-care costs is one force behind the rise of the wellness industry; the other is the growing demand from consumers for things that make them feel healthier. Surveys find that three out of four adult Americans now feel that their lives are “out of balance”, says Mr Kelly. So there is a huge opportunity to offer them products and services that make them feel more “balanced”. This represents a big change in consumer psychology, claims Mr Kelly, and one that is likely to deepen over time: market research suggests that 35-year-olds have a much stronger desire to lead healthy lifestyles than 65-year-olds.

One difficulty for wellness firms will be acquiring the expertise to operate in several different areas of the market. Another will be to maintain credibility in (and for) an industry that combines serious science with snake oil. One problem—or is it an opportunity?—in selling wellness products to consumers is that some of the things they demand may be faddish or nonsensical. Easy fixes, such as new-age therapies, may appeal to them more than harder but proven ways to improve health. And there is much debate about the health benefits of vitamin supplements, organic food and alternative medicines, let alone different forms of spirituality.

One of Canyon Ranch's answers to this problem has been to hire Richard Carmona, who was America's surgeon-general until last summer. In that role, he moved prevention and wellness nearer to the centre of public-health policy. The last time a surgeon-general ventured into business, it ended disastrously: during the internet bubble, Everett Koop launched DrKoop.com, a medical-information site that went bust shortly after going public and achieving a market capitalisation of over $1 billion. This time around, the wellness boom seems unlikely to suffer such a nasty turn for the worse.

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Wellness drinks

A magic potion?

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Coca-Cola prepares to launch a "wellness" drink

NATURAL and functional are the latest buzzwords in the food and soft-drinks industries. Enviga, a new health drink made by Coca-Cola, the world's biggest maker of fizzy soft drinks, and Nestlé, the largest food firm, is supposed to be both. A concoction of "natural" green-tea extracts, caffeine and "plant micronutrients", it will go on sale across America next month. Its makers claim it can help consumers to lose weight.

"Enviga increases calorie burning," declared Rhona Applebaum, Coca-Cola's chief scientist, when the new drink was unveiled in late 2006. Coke claims studies have shown that a healthy person of normal weight can burn 60 to 100 calories by consuming three cans of Enviga over 24 hours. The studies have not been made public.

Health and wellness are the main sources of growth in the soft-drinks industry. In 2005 global sales of healthy drinks, which include bottled water, fruit juice, and sports and energy drinks, amounted to $138 billion, or 45% of the soft-drinks market. Growth rates are seven times higher than for carbonated sugary drinks. In America sales of carbonated drinks declined a little in 2005 as government campaigns and media coverage raised concerns over obesity.

Will consumers take to Enviga? Only one out of every three new soft drinks is a success, says Robert van Brugge, a drinks analyst at Sanford Bernstein. Recent high-profile flops include Vanilla Coke and Coca-Cola C2. Mr van Brugge says he does not much like the taste of Enviga, which comes in green tea, berry and peach flavours. And the suggested retail price of $1.29-1.49 is relatively high.

Enviga's fate will probably turn on Coke's claim that it helps to burn calories. The Centre for Science in the Public Interest, a consumer lobby group, threatened to sue Nestlé and Coke over the weight-loss claims for the new drink unless they changed their marketing strategy by January 4th. Yet even if the claims made for Enviga are accurate, drinking it would be a pretty inefficient way to lose weight. To shed the 560 calories in a Big Mac, you would have to swallow about 20 cans of the stuff. Going for a long run would seem to be a lesser—not to mention more economical—punishment for gluttony.

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Alitalia

Terminal decline

Jan 4th 2007 | LONDON AND ROME
From The Economist print edition

Will anyone offer to buy Italy's ailing national airline?

THE stoicism of Italy's air travellers seems likely to be tested yet again on January 19th. The main trade unions at Alitalia, the national airline, have called on their members to strike that day. There was also a strike on January 19th last year, followed by more cancellations when employees ignored a ministerial injunction to remain at their posts. Labour unrest also left Alitalia's passengers grounded in the autumn. While the rest of Europe's airlines are thriving and even fighting back against budget-carrier competition, Alitalia (like Olympic in Greece) is stuck in a 1970s time-warp of losses, strikes and cancellations.

Yet this month's strike, if it goes ahead, will take place in a different corporate climate. On December 29th Italy's finance ministry, Alitalia's largest shareholder with a 49.9% stake, invited expressions of interest for the purchase of at least 30.1% of the airline and of 1.3 billion convertible bonds, with a nominal value of €450m ($590m), due to mature in 2010.

AFP

For sale—with strings attached

Interested parties must declare themselves by January 29th; those that meet the government's conditions will receive more information about the troubled airline and will be allowed to bid for it. But since those conditions include keeping all 18,000 jobs and maintaining the route structure and the Italian nature of the carrier, “no rational bidders can be expected”, says a leading aviation analyst. In fact, the whole offer for sale could be seen as a cynical, if necessary, charade. With no takers and no permission from the European Union to pump in further aid, the government would have to let the airline go bust.

Potential buyers are said to include Air France, a member, with Alitalia, of an alliance called SkyTeam; Air One, an Italian airline which has a partnership with Germany's Lufthansa; and private-equity groups. But none is likely to make an early move. Much more probable is that potential partners will sit tight until the airline runs out of cash this time next year and is grounded because it cannot pay its airport and fuel bills. After a week of national wailing and gnashing of teeth, Alitalia could be reborn with staff on 60% of their old, bloated pay rates, as a regional adjunct of the powerful Air France-KLM group, rather in the way that Swiss emerged from Swissair's collapse as a short-haul feeder in the Star Alliance group, based around Lufthansa and United Airlines.

Thanks partly to its perennial labour problems and government interference with management attempts to solve them, Alitalia has lost money for years. It accumulated net losses of about €2.6 billion between 1999 and 2005 and by the end of September last year it had lost a further €275m. It has had some €2.8 billion of fresh capital pumped in since 2002. Such is Alitalia's plight that Consob, Italy's stockmarket regulator, requires it to report monthly on its debt and cash positions. Imaginative shuffling of assets and a capital injection saved the group just over a year ago. At the end of 2005 it had net debt of €879m and cash of €1.1 billion. By the end of October 2006 debt had risen to €972m and cash had fallen to €769m. Its figures for November are late.

A team of aviation consultants from America, who turned round Continental Airlines in the mid-1990s, tried to fix Alitalia but were defeated by the intransigence of its workers, who surpass even America's notorious aviation unions in their determination to defend overmanning and economic privileges. Poor management is another problem, although Italy's politicians must bear some of the blame in their choice of bosses and their reluctance to allow the radical restructuring that the airline has long needed.

In October Alitalia's board reviewed a revised industrial plan for 2007-09 and confirmed the airline's position as a “highly efficient network carrier”. Parties interested in buying the government's stake that pass the preliminary screening will have to make their ideas known in business plans. Keeping the airline Italian, as the government requires, should not be difficult. But creating a highly efficient network carrier while guaranteeing the quantity of services and territorial coverage sounds a much taller order for any buyer wanting a return on its money.

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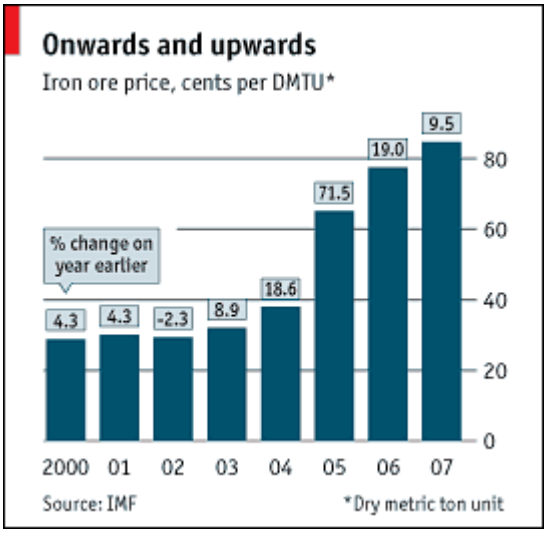
Mining

Shock and ore

Jan 4th 2007 | TOM PRICE MINE, WESTERN AUSTRALIA
From The Economist print edition

Iron-ore prices continue to rise as demand outstrips supply



IN THE dry, dusty town of Dampier on the west coast of Australia, a gigantic machine lifts up railway cars, two at a time, and tips out their contents—roughly 110 tonnes of iron ore apiece. The crushed rock falls onto a conveyor belt, which carries it to ships queuing up in the nearby harbour. They, in turn, will distribute it to steelmakers around the world—at a price. In late December, Rio Tinto, the mining firm that owns the facility, announced that one of its biggest customers had agreed to pay 9.5% more for iron ore in 2007, in line with price rises announced by other big producers. The latest increase follows jumps of 19% in 2006 and 71.5% in 2005 (see chart).

Steelmakers around the world are chafing at this long run of price rises. Indian firms are calling on the government to cap exports of iron ore, to ensure affordable local supplies. The Chinese authorities are making it harder for small producers to import iron ore, to reduce competition for the stuff. Some steelmakers, including Arcelor Mittal, the world's biggest, are developing ore deposits of their own.

But demand still outpaces supply, thanks to fast and unforeseen growth in countries like China and India. “We can sell every tonne we produce, and more,” says Dave Smith, the managing director of Pilbara Iron, a division of Rio Tinto. He says his firm is working flat out, in difficult conditions, to increase supply. The port at Dampier, for example, could handle no more than 68m tonnes of ore in 2003. By the end of 2006, its capacity had almost doubled, to 116m tonnes. By the end of 2007, it should reach 140m tonnes. The firm's other port in the region, Cape Lambert, is also expanding rapidly.

Naturally, Rio Tinto is also expanding its mines and the railways that ferry ore from the interior to the ports on trains more than 2.5km (1.6 miles) long. Back in 1998, when the firm opened a new mine called Yandicoogina, planners expected a slow expansion in output to 15m tonnes a year in the remote future. But it is already producing 36m tonnes, and should reach 52m by the end of 2007. The firm is also doubling up tracks on its rail network—the world's biggest in private hands.

All these expansion schemes have cost Rio Tinto A$5 billion ($4 billion). But growth is getting more expensive, as other mining firms, and Western Australia's booming oil and gas industry, compete for labour and materials. “We have a shortage of just about everything,” Mr Smith complains. The delivery of new locomotives to pull the ore trains, among other items, has fallen behind schedule. The price of tyres big enough to fit the mining firms' gargantuan trucks has doubled in recent years, he says, while construction costs for new facilities have increased by half.

Workers themselves are another problem: with labour in short supply, oil and mining firms are poaching staff from one another. The annual turnover of employees has reached 100% at some of Rio Tinto's sub-contractors. Shops and restaurants in the mining region are short-staffed, hotels and flights are fully booked, and car-hire agencies have no vehicles to spare.

Obtaining permits can also cause delays. All construction projects must meet strict rules concerning damage to the environment and aboriginal heritage. The bureaucrats who process this paperwork are overstretched, says Mr Smith, in part because many of their colleagues have resigned to drive trucks in

the mines. At Tom Price, Rio Tinto's biggest mine in the area, managers point out scrub-covered hillsides whose cultural significance they are debating with the authorities. Even the weather slows things down: six cyclones battered north-western Australia in 2006, and another is now prompting closures at several mines and ports.

Rio Tinto's scale—it is one of the world's biggest mining firms—should help it cope with these pressures. It pools its procurement to increase its clout with suppliers and to allocate goods where they are most needed. Even so, says Mr Smith, “We're only barely keeping pace.” It will be a little while yet, it seems, before the world's steelmakers get much relief.

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The car industry

Plugging in

Jan 4th 2007 | DETROIT
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Carmakers demonstrate a new enthusiasm for electric vehicles

ANY good mystery must eventually uncover a villain, and in a recent documentary, “Who Killed the Electric Car?”, the filmmakers duly pointed the finger at General Motors. The reality is not quite so simple, but there is little doubt that when GM pulled the plug on its EV1 battery-powered car a decade ago, other manufacturers followed the giant carmaker's lead.

Yet GM has now recharged its enthusiasm for electric vehicles—or at least for their close cousins, hybrid cars. At the North American International Auto Show, which opens in Detroit on January 7th, the company, hitherto an also-ran in the fast-growing hybrid market, is expected to unveil a prototype that overtakes existing hybrids, such as Toyota's popular Prius. Today's hybrids capture energy normally lost during braking and coasting and use it to power an electric motor that can provide extra bursts of acceleration when needed. The Prius and other hybrids can also run on battery power alone at low speeds over short distances, such as in stop-start traffic.

AFP

Carlos is still not convinced

But GM's new car is expected to be a “plug-in” hybrid, which, as its name implies, can be recharged by plugging it into the mains. Together with a big battery pack based on lithium-ion technology, this gives plug-ins a much larger range in all-electric mode, after which the petrol engine kicks in. GM's car is expected to go around 50 miles (80km) in all-electric mode, more than enough for most American commuters, who would need to use the petrol engine on longer trips only. The drawback is that plug-in hybrids need a much larger and more costly battery pack. Modifying a Prius to operate as a plug-in hybrid, as some enthusiasts have done, costs around $12,000.

Yet speaking at the Los Angeles Motor Show in November, GM's boss, Rick Wagoner, hinted strongly that his company planned to put a plug-in into production. It is an indication of how the pace is picking up in the race to develop more eco-friendly cars that a decade after the fiasco of its all-electric car, GM is challenging Toyota to go further than it already has with hybrids.

Others are more cautious. Carlos Ghosn, the boss of Renault and Nissan who is known for his scepticism towards hybrids and all other alternative engines, said in December that he still had doubts that hybrid technology was ready for the mass market. Nevertheless, this year Nissan will start to sell a hybrid developed in conjunction with Toyota. It has also started to develop its own technology, though Nissan officials stress that plug-in hybrids will have to wait until battery technology improves. Toyota has also been sceptical about plug-ins, insisting that the Prius's approach is more convenient, since it never has to be plugged in. But last July the firm confirmed that it too was developing a plug-in, though it has not committed itself to a commercial launch.

The difficulty, says Jim Hall of AutoPacific, a consultancy, is that lithium-ion battery technology is not quite affordable or reliable enough to meet the demands that will be placed on it over the seven to ten years of a typical car's life. But things are improving “quite quickly”, says David Cole of the Centre for Automotive Research in Ann Arbor, Michigan. The first plug-ins could go on sale by 2010, he says.

And as batteries improve, all-electric vehicles will become more feasible. Several big carmakers are

revisiting the technology, says Mr Cole, along with some innovative small firms such as Tesla Motors, a Silicon Valley start-up. It has been taking orders for a new all-electric sports car that can accelerate from zero to 60mph in four seconds and has a range of 250 miles. It costs nearly $100,000, but the firm says better batteries will eventually enable it to sell a four-door saloon for well under half that price. Announcements of the death of the electric car, in short, may well prove to have been premature.

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Corporate governance

Home alone

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Home Depot's overpaid boss loses his job

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LAST year was bad enough for America's chief executives, who lost their jobs in record numbers. But 2007 has got off to an awful start, with the abrupt departure on January 3rd of Home Depot's Bob Nardelli. His continued presence in the boss's chair had given hope to that dwindling band of corporate titans who still believe they can ignore newfangled ideas such as good corporate governance or pay that truly reflects performance.

Mr Nardelli's departure was in keeping with most of his six-year reign at Home Depot, in that its most striking aspect was how much money he got. Ever since he arrived from General Electric in December 2000, after being passed over for the top job when Jack Welch left, Mr Nardelli has been making headlines largely for being overpaid. Under the terms of his contract, his severance package is worth $210m. Not bad at all, considering that the share price on the day before his departure was slightly less than it was when he took the job.

Mr Nardelli reacted to criticism of his pay with defiance. At last May's annual meeting he declined to give the customary speech and, apparently at his urging, the ten other members of the board did not attend. This outraged many shareholders, notably those seeking improvements in Home Depot's governance.

Those activists enjoyed their revenge this week, for it seems that Home Depot's board took fright at last month's declaration of a war that would culminate at this year's annual meeting. Relational Investors, an investment firm led by Ralph Whitworth, a legendary shareholder activist, had called on Home Depot's board to establish a committee to review corporate strategy and management performance, and to explore alternatives, including selling the firm. Relational would also nominate two candidates for election to the board.

With the Securities and Exchange Commission's new disclosure rules on executive compensation taking effect this year, Mr Nardelli's fate will surely scare other overpaid bosses, especially those with less lavish severance terms. His successor is Frank Blake who, as is now the fashion (witness Pfizer and Viacom), spent much of his career as a lawyer. Whether his legal skills will equip him to revive Home Depot's share price remains to be seen. But they should help him do a better job than Mr Nardelli of appeasing shareholders, perhaps—as analysts at Goldman Sachs are musing—by selling Home Depot to the private-equity buyers circling greedily overhead.

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The hustler

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Rex Features

American Apparel's unusual flotation is typical of Dov Charney, its founder

DOV CHARNEY courts controversy. The 37-year-old founder and chief executive of American Apparel, the largest T-shirt manufacturer in America, has been called a brilliant businessman, an amateur pornographer, a Jewish hustler and a man with a social mission. He is admired for single-handedly creating one of America's most successful fashion retailers, for devising his company's sexually suggestive approach to advertising and for treating his workers much better than his rivals. He is also envied, loathed and criticised for all of these things.

As he prepares to take his company public, Mr Charney is trying to strike a less provocative tone than he used to. Previously he emphasised his use of sex as a marketing tool and his tolerance of his workers' sexual preferences: he even posted a video of himself walking around in his underwear on his company's website. Today he prefers to talk about his belief in capitalism, self-interest and globalising markets. But true to form, Mr Charney is taking his firm public in an unusual way. On December 19th American Apparel announced its takeover by Endeavor Acquisition, a “special-purpose acquisition company” formed for the sole purpose of seeking out takeover targets. The deal, due to be completed this summer, will allow Mr Charney to go public without the scrutiny that attends most stockmarket listings.

American Apparel's rise is a striking success story. Mr Charney opened his first shop in 2003. Today he has 143 in 11 countries selling casual clothes for men, women and children. American Apparel's sales for 2006 were an estimated $300m. His company's 80% gross margin, an indicator of its profitability, is well above the industry average of 60%. Its unbranded, brightly coloured and moderately priced T-shirts, sweatshirts, underwear and jeans have become wildly popular among the young, well-travelled crowd that Mr Charney says represents the “world-metropolitan culture”.

From American Apparel's inception Mr Charney has put great emphasis on making his workers happy. Pay is performance-related, and amounts to $12 an hour on average, far above California's minimum wage of $6.75. American Apparel staff can buy subsidised health insurance for $8 a week. They are entitled to free English lessons, subsidised meals and free parking. Their workspace is properly lit and ventilated. When the company goes public employees will receive an average of 500 shares, expected to be worth about $4,500.

Anti-sweatshop activists praise Mr Charney as a pioneer of the fair treatment of garment workers. The benefits he provides are expensive: subsidising health insurance costs his firm $4m-5m a year; subsidising meals costs another $500,000. Even so, Mr Charney says he has no plans to scale back these benefits. He considers his contented workers the reason for his success. Treating them well means they are less likely to leave, for one thing, which saves money. “American Apparel is not an altruistic company,” says Mr Charney. “I believe in capitalism and self-interest. Self-interest can involve being generous with others.”

Anti-globalisation activists like Mr Charney, too. Whereas Gap, another American fashion chain, outsources 83% of its production to factories in Asia, all of the 4,000 or so workers involved in American Apparel's manufacturing process work in the same factory in downtown Los Angeles. But this is not because Mr Charney is opposed to outsourcing or globalisation. His motive, once again, is self-interest: it gives him control over every stage of production, and enables him to monitor the fickle fashion market and respond quickly to new trends. In any case, he cannot outsource anything, he says, because he lacks the necessary infrastructure—and he has no plans to set it up.

Underneath the ethical clothing

Nor does Mr Charney intend to change his controversial approach to advertising. An amateur photographer since childhood, he takes the company's characteristic snapshots of young men and women in various states of undress himself. Half of his models are employees; the others are friends or strangers who send in photos. He pays them a small fee. But sex is more than a marketing tool at American Apparel, according to Mr Charney's critics. Four former employees have filed lawsuits against him alleging sexual harassment. Three of the suits have been settled and one is still pending. Mr Charney's accusers say he disgusted them with dirty talk and gestures, made their lives miserable and sacked them when they complained. He says they are exploiting California's lawsuit culture for personal gain, and they were fired for being bad at their jobs.

Mr Charney has also made enemies among liberals, who accuse him of overstating his firm's progressive credentials. Peter Dreier and Richard Appelbaum, two left-leaning academics, accused American Apparel of a “vicious intimidation effort” against Unite, a garment workers' union, and its supporters. Mr Appelbaum, who is co-author of a book called “Behind the Label: Inequality in the Los Angeles Apparel Industry”, wants Mr Charney to submit to an unannounced audit to verify his claims about the treatment of his workers. Mr Charney responds that Unite has a history of corruption and racism, and denies anti-union campaigning, though none of his workers is a member of Unite. “I cannot placate the Left,” he grumbles.

Having gone public, American Apparel plans to open another 650 shops across the world. This will not be possible without moving production to China, Mr Appelbaum predicts. Retail analysts also doubt that American Apparel will be able to expand without resorting to outsourcing. Mr Charney insists that China is too far away for his T-shirt production, even though moving textiles by ship from Hong Kong to Los Angeles takes just 11 days. But as his firm grows, he may have to decide whether he is more a capitalist or a maverick.

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Manpower

The world of work

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To see how the nature of work is changing around the world, look at the evolving strategy of a global employment provider

Lasse Skarbovik

“CORPORATE America is not bulimic any more.” In the 1990s firms indulged in a “feeding frenzy on employees”, only to spew out many of their new recruits when the economy soured. During the recent boom years, however, most companies have had a “good, balanced diet of people coming in.”

So says Jeff Joerres, the boss of Manpower, one of the world's leading employment-services firms. He should know: Manpower is a big supplier of temporary workers, the demand for which rises and falls with the business cycle. The company's share price has long been regarded as a bellwether of investors' expectations for the American economy. After climbing to $70 in May 2006 from a low of $27 in October 2002, Manpower's share price fell ominously to $55 by the summer, before rallying to a new high of $77 in December.

These brighter prospects for America's corporate health may be due in part to that improved jobs diet, which Mr Joerres speculates was caused indirectly by the millennial panic over the so-called Y2K computer bug. Having upgraded their information systems, firms are much better at matching employment to demand. “We used to get orders in anticipation of demand. Now firms don't rely on gut instinct, they look at a screen,” says Mr Joerres. So any slowdown in America is unlikely to lead to a surge in redundancies of the sort that once weighed the economy down further.

Indeed, 2007 is getting off to a good start. Manpower's latest employment survey shows firms in most of Europe and Asia are planning to increase their hiring compared with the first quarter of 2006, while the American jobs market is “continuing to plug along at a steady pace.”

Yet less should be read into Manpower's share price than in the past. With only about 13% of its revenues now coming from America, the company is far less exposed to the business cycle there. Moreover, as providing temps increasingly becomes a low-margin commodity business, it has to look for better prospects. That has led Manpower to alter its strategy to try to profit from dramatic changes under way in the world's labour markets. These include outsourcing, ageing populations and an increasingly severe shortage of talent, even in places like China.

Workers of the world unite

Manpower was founded in 1948 when two Milwaukee lawyers, spurred by their failure to find extra administrative help for an urgent legal brief, started a business to provide temporary staff. Today, as is clear from the many national flags that fly, somewhat incongruously, United Nations-style outside its otherwise nondescript headquarters off a suburban Milwaukee highway, the firm is truly global. It has 27,000 full-time employees working in 4,400 offices in 73 countries. It is from those countries that a picture of the changing world of work emerges.

Start with France, Manpower's biggest market and source of around one-third of its revenues. This was the third foreign country it entered in the 1950s (after Canada and Britain). France's notoriously burdensome labour regulations deter hiring full-time workers and ensure a strong demand for staff on short-term contracts.

The Italian market has been booming too since a ban on the use of temporary workers was lifted in 1997. Japan is also hot, thanks to legal changes that have allowed greater use of temporary workers, especially in light manufacturing.

For many of Manpower's bigger multinational clients, the number of temporary employees, ranging from those on short-term contracts to consultants, can represent around a fifth of the workforce. Overall, temps make up about 1-3% of the total in most countries. Manpower expects this to rise to around 3% almost everywhere as the trend in hiring more temps extends from big firms to middle-sized companies.

Yet little of Manpower's business in China involves temporary workers. China represents the most extreme example of the change in strategy since Mr Joerres took charge in April 1999. Despite the growth in temporary employment, profits had been flat for three years. The company had also lost its place as the world's biggest employment firm to Adecco, a European rival formed in 1996 by the merger of Adia Interim of Switzerland and Ecco of France.

There was speculation that if things did not improve fast, shareholders would push for the firm to sell itself—not for the first time. From 1976 to 1986 it was owned by Parker Pen before later being sold to Britain's much smaller Blue Arrow. That was an unhappy marriage and the firm became independent again in 1991.

Mr Joerres decided to stop pursuing growth as an end in itself and instead to seek higher margins. This has meant becoming a comprehensive employment-services firm. Traditional temp work now accounts for 70% of profits, down from 96% when Mr Joerres took charge. He expects its share to be 50% within five years. Manpower still expects its temping business to grow, but not as fast as other areas.

One of those areas is placing permanent employees. Manpower came late to this business, in 2001, but now has 2,000 staff dedicated to permanent recruitment, which provides about 10% of revenues. This proportion could increase substantially if what it calls “total recruitment outsourcing” takes off, which so far it is doing only slowly. An example of this business is that Manpower manages all hiring for the Australian defence force, recruiting about 9,000 people a year at all levels.

To boost growth in other areas, Manpower bought Right Management in 2004. This firm specialises in employment services like outplacement, succession planning and coaching. It also advises companies on human-resources strategy.

The outplacement business has changed a lot. A decade ago, people expected to work for the same firm until they got a gold watch at retirement; much of the job was to help people cope with the trauma of no longer being needed. Today, that takes little time because nobody expects a job for life any more. Now people want help in thinking about what to do next and quick access to a large number of potential employers. Manpower is acutely aware of the threat to this business posed by online social-networking sites. So it will be no surprise if it buys one.

Manpower, through Right, is also benefiting from a boom in demand for coaching. This used to be provided only as part of the service to help people find new jobs. Increasingly it is being offered to employees who are staying put and hoping for promotion. The change came about in part from the feedback from interviews with employees who were leaving. Many made comments along the lines of: “Why did I have to wait until I got fired to get this?”

To boost its margins on temps, the company has ventured into the recruitment of more specialists. In 2000 it bought Elan, which provides skilled workers to information-technology companies. The following year it bought Jefferson Wells, a specialist accounting-staff firm—a purchase that was to prove

spectacularly well-timed, just before America's Sarbanes-Oxley act caused a surge in demand for staff to work on internal audits.

Specialist work is a big step up from providing temporary clerks to help with such things as the payroll. Nearly three-quarters of the people supplied by Jefferson have post-graduate qualifications and an average of 18 years' experience. Much the same is true of Elan's IT workers.

Shanghaied

Skills are becoming increasing valuable everywhere. In China, Manpower recently formed a partnership with the government in Shanghai to identify shortages of skills and plan how to fill them. One idea is to design suitable training. In particular, the firm is helping to spot people with entrepreneurial flair.

A Manpower survey last year of 32,000 employers in 26 countries found that 29% would have hired more professional staff if candidates had had the necessary skills. This talent shortage is expected to get far more severe in the coming decade.

Two big fronts in this battle will be China and India, where multinationals are under pressure to scale up fast. In their haste they are making many bad recruitment decisions. Unskilled workers may be abundant, but two out of five firms report difficulties in finding suitable senior managers in China. There are also increasingly severe shortages in sales, marketing, technology and human resources, where salaries are rising at up to 25% a year.

And once people have been hired, the attrition rate can be expensively high—particularly for the most talented. This owes as much to the lack of training and career-development opportunities as to salaries. Increasingly, Chinese firms can get ahead of multinationals in the contest for local talent, not least by offering people faster promotion. Four years ago, Manpower worked mostly with multinationals in China; now it also does lots of work with local firms.

A further opportunity is to help multinationals with an increasingly popular “China plus one” strategy: hedging the political and logistical risks associated with being in China by having related operations in a nearby country. Companies may place factories in Vietnam, call centres in the Philippines or higher-security technology operations in Singapore.

The labour market is arguably even more complex in India, where, for example, Infosys, a leading services outsourcing firm, reportedly receives 1.3m job applications a year, most of them wholly unsuitable. Manpower found itself in a similar position, especially when trying to fill offshoring jobs that require European languages. It set up teams of 20 people in branch offices to shift through applications. Thousands of candidates apply, but only 3-7% of them have the right skills.

As for career development, the leading Indian firms, such as Infosys, have been addressing the skills gap and high turnover rates by establishing in-house universities. Following their example, Manpower has launched its Global Learning Centre, which will eventually be accessible for students through some 3,000 internet cafés in India.

The grey workforce

In the longer run, a shortage of talent—exacerbated by demographic trends—is likely to create growing demand for older workers. Japan, Australia and Italy are expected to lead the way in embracing them. Manpower has formed a partnership with the American Association of Retired People to try to come up with ideas to see how it could operate in this field.

Training methods will be needed to teach older people to use computers. Offices may need to be redesigned for the less agile. In Asia in particular, training will be needed to help older workers cope with having a boss far younger than they are—hitherto culturally unthinkable.

One task will be to change older people's expectations of how to remain in the workforce, says Mr Joerres. Manpower is not good at cost-effectively providing the odd hour here and there. It is much better at placing people in work for concentrated stints, such as the first two weeks of each month. “We know how to do that; we don't know how to do an hour every Tuesday,” says Mr Joerres.

The demand for greater flexibility will grow. Wal-Mart, for instance, has begun implementing a new computerised scheduling system to move its more than 1m workers to new types of shifts. The world's biggest retailer wants shifts to be based on the number of shoppers in its stores. So workers would come and go in groups during busy and slack times of the day.

Will Manpower succeed in its ambition to grow in line with the changing patterns of work? Some observers remain unconvinced. One concern is the Right acquisition, which even Mr Joerres admits was made at a high price. Moreover, Right's recent results have been disappointing. Even so, by sending staff a clear signal that their business is no longer just about providing temps, “within the firm it has been the biggest catalyst”, insists Mr Joerres.

Mr Joerres is confident that Manpower can double its profits in five years, even without further acquisitions. But Adecco is finally getting back on track after an accounting scandal and a power struggle between its founders. It too will be broadening its range of services and it will be imitating Manpower's efforts at innovation by establishing its own research centre. When it comes to filling jobs, there will be plenty of competition in the changing world of work.

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Emerging markets

The global gusher

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David Simonds

Thailand's bungled attempt to stem capital inflows is just one symptom of the worldwide liquidity glut

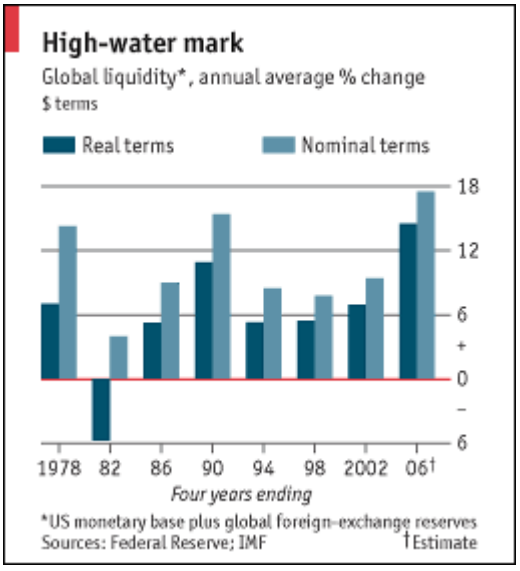
WHEN Thailand's introduction of capital controls sent its stockmarket plunging a few days before Christmas, you could have been forgiven for thinking, “Here we go again”. It is almost ten years since the start of the Asian financial crisis, when capital flight on a huge scale caused financial markets and economies in the region to collapse. The problem that Thailand and other Asian countries face today, however, is the exact opposite: how to stop capital flowing in.

Worldwide, an abundance of liquidity has lured investors into riskier assets in search of higher returns. Though there is no agreement on how to measure liquidity, using the global supply of dollars as a proxy, *The Economist* estimates that in the past four years it has risen by an annual average of 18%, probably the fastest pace ever (see chart).

Last year it washed through emerging economies in record amounts, pushing up their currencies. Between the start of 2006 and mid-December the Thai baht rose by 16% against the dollar—more than most other currencies tracked by *The Economist*. When capital inflows accelerated in December, the Bank of Thailand panicked and slapped a tax on inward portfolio investment (similar to that used in Chile). After share prices fell by 15% in a day, the controls were hastily removed from equities. They remain on debt investments.

This clumsy flip-flop has severely undermined the credibility of Thailand's economic policymakers. Yet the drastic measures highlight the seriousness of a dilemma faced elsewhere in Asia: how to curb domestic liquidity when foreign capital is flooding in. Thailand could have allowed the baht to rise further, but it had already gained against all other Asian currencies last year, raising concerns about exporters' competitiveness.

Some economists argue that Thailand should simply have cut interest rates to stem capital inflows, making bonds less attractive to foreign investors. But this is to misunderstand the nature of the problem. David Carbon, an economist at DBS, a Singapore bank, argues that the baht's strength is not the real issue, because Thailand's exports have continued to grow strongly. Instead, the Bank of Thailand is more worried about excessive domestic liquidity. Lower interest rates would simply add to the problem, generating higher credit growth, inflation and asset prices. Similarly, central-bank intervention to hold the baht down by buying dollars would also boost the money supply.



Moreover, as Brad Setser of Roubini Global Economics points out, Asian central banks are having to buy dollars not just because of their current-account surpluses, but also because foreign investors are moving money into the region. If the dollar subsequently falls, the central bank may make a loss on its reserves, but the country's exporters will have gained while the local currency was held down. However, though Asian countries may be happy to subsidise their exporters they are not so keen to offer the same subsidy to foreign banks, pension funds or hedge funds.

Capital controls are a way around what economists call the “impossible trinity”: an economy cannot simultaneously control domestic liquidity, manage its exchange rate and have an open capital account. Only two of the three are possible. Controls on short-term capital inflows, if (a big if) they are implemented in a well-thought-out and transparent way, can offer a viable compromise, curbing capital inflows and excessive money growth, while taking pressure off the currency.

Other Asian countries are also looking for ways to discourage foreign capital inflows. In December South Korea raised reserve requirements on foreign-currency debt to make it harder for banks to borrow from abroad. China has kept its restrictions on portfolio capital inflows, helping it to hold down its exchange rate. This, however, is squeezing the competitiveness of other Asian economies. Many economists reckon that a rise in the yuan would do little to reduce America's trade deficit, but it would certainly help to take pressure off other Asian exporters—and assist in curbing the gush of global liquidity.

The deluge of spare cash has two main sources. First, average real interest rates in the developed world are still below their long-term average. Second, America's huge current-account deficit and the consequent build-up of foreign-exchange reserves by countries with external surpluses has also pumped vast quantities of dollars into the financial system. A large chunk of Asia's reserves and oil exporters' petrodollars have been used to buy American Treasury securities, thereby reducing bond yields. In turn, low bond-market returns have encouraged bigger inflows into higher yielding emerging-market bonds, equities and property, especially in Asia. Liquidity has been further boosted by the use of derivatives, and by carry trades (borrowing in currencies with low interest rates, such as yen, to buy higher-yielding currencies).

The spread on emerging-market bond yields over American Treasury bonds fell to another record low last week. Share prices in emerging economies have risen by 243% on average from their trough in 2003. That still leaves the average price/earnings ratio below its historical average and less than that in developed countries, so for most markets it is premature to talk about bubbles. But if asset prices continue to climb at their recent pace, central bankers will become increasingly nervous.

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Buttonwood

The three Scrooges

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Companies will one day rue today's miserly approach to investment

FOR a businessman, if there is anything better than making money, it must be making more money. Profits are accounting for their biggest share of the American economy since 1950. Interest rates and bond yields are low by historical standards. It ought to be a great chance for companies to expand.

After all, the logic of capitalism is pretty clear. If returns on capital are high (and much higher than the cost of capital), businesses ought to be falling over themselves to invest. In time, that excess investment (by increasing competition) would reduce returns. Profits would return to the mean.

But that does not seem to be happening. Business investment has been rising steadily, rather than spectacularly. From 1993 to 2000, American non-residential fixed investment grew by less than 8% in only one year. It has beaten that mark on only one occasion since. And even that rebound (in 2005) was followed by a temporary slowdown in the second quarter of last year.

One answer to this conundrum could be that businesses in America and Europe no longer need to invest as much as they used to. They have “outsourced” their investment to India and China, which are rapidly expanding their productive capabilities and supplying Western companies as sub-contractors.

However, Henry McVey, a strategist at Morgan Stanley, says that the answer lies in a “misalignment triangle”, comprising listed companies, private-equity groups and fund managers. Companies are simply not using their balance sheets effectively. They are retaining cash, rather than borrowing to exploit the gap between the returns they can achieve and the cost of finance. Indeed, Mr McVey says that many companies earn a lower return on equity than they make on their operating assets; that is a very poor deal for shareholders.

Why is this? One reason is that companies have very high hurdle rates for new projects, higher than seems justified by a world of low interest rates. But that really reformulates the puzzle in a different form; why are hurdle rates so high?

Mr McVey thinks that executives are being cautious, given the regulatory scrutiny that followed the collapses of Enron, an energy firm, and others. Executives face possible prison sentences if things go wrong; keeping a bit of cash on the balance sheet is a kind of insurance policy. Managers may also have learned a lesson from the investment splurge of the 1990s.

But this cannot be the only factor. Executives are all too happy to return cash to shareholders by buying back equity. This has the great advantage of boosting earnings per share, one of the key measures watched by investors. In turn, this supports the share price on which (thanks to options) bosses' pay often depends.

In contrast, investment in new plant and equipment may take years to recoup. Given the rapid turnover of management, executives may feel there is little point in planning for the long term, when only their successors will reap the benefits.

A similar issue affects the second point on Mr McVey's triangle; private-equity firms. They usually plan to own companies for no more than five years and the main focus is in maximising cashflow to meet interest payments and to pay down debt. Capital expenditure is a hindrance rather than a help.

But such groups are also benefiting from the caution of those they are buying from. As Mr McVey says,

“Whereas in the past, [leveraged buy-out] firms actually had to know something about the business they were buying, today they can earn huge returns by merely getting rid of the excess cash on the balance sheet.”

In theory, investors ought to be wise to this. They should be urging companies to borrow money to enhance returns and they should be resisting buy-outs, because they understate the potential value of the companies in question.

In practice, however, Mr McVey argues that investors, particularly fund managers, are only too happy to accept a bid premium from a private-equity group. The lift such bids give a portfolio help them to beat the index, and possibly their competitors, keeping clients happy for a while.

This is good news for stockmarkets in the short term, in that profits may remain high—or at least will not be undermined by the folly of executives. But the bad news is that underinvestment will weaken companies' long-term health. The conglomerates behind the takeover booms of the 1970s and the 1980s resembled today's private-equity groups. They aimed to use their financial expertise to improve returns across a range of industries. But they tended to run subsidiaries to maximise cashflow, and the businesses slowly deteriorated, like a poorly maintained house. Today's skinflints may do the same.

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Lloyd's of London

The Rip van Winkle of risk

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The world's quirkiest insurance market wakes up to the modern world

SHIPWRECKS, hurricanes, terrorism, kidnappings: Lloyd's of London takes them all in its stride. The world's best-known insurance market has a remarkable flair for covering unusual risks. On a closer look, however, Lloyd's is much like its headquarters in the City of London: post-modern on the outside but rather antiquated within.

Now, though, with competitors looming in Bermuda, Dublin and possibly Dubai, Lloyd's is grappling with a big task: how to drag itself into the 21st century by increasing efficiency and cutting costs without losing its entrepreneurial edge. After years of false starts, including some costly technology flops, modernisation seems at last to have gained momentum. Sue Langley of Hiscox, a leading syndicate in the market, believes that there are enough favourable factors in place to make 2007 “a year of huge change in Lloyd's.”

Given the sheer size of the Lloyd's market, which involves about 200 firms and collected premiums of perhaps £15 billion ($27 billion) in 2006, the reform efforts matter to many businesses around the world. Lloyd's has great influence on the pricing of global marine, aviation and catastrophe risks. Its bespoke contracts are renowned: Lloyd's syndicates insure everything from cricket's Ashes trophy to oil rigs, celebrities' body parts and exotic fruit.

Yet for all the specialist knowledge in the market, some of its practices are downright backward. A visit to the Room, as Lloyd's calls its soaring underwriting hall, with the time-honoured Lutine Bell at its centre, illustrates the scale of the task. Swarms of young men and women, employees of broking firms, wander about with stacks of contract paperwork under their arms. Once they get to an underwriter's desk, some will queue for an hour or more waiting to tweak the tiniest detail in a contract. After changes are marked on a paper copy, the contract is carried on to the next underwriter involved in it.

“When I got to Lloyd's, I thought, ‘This is really archaic’,” says Ms Langley. She shuddered particularly at the fleet of white vans that ferry four tonnes of paper—contracts, claims reports and such—every business day to a processing centre on the outskirts of London, where details are entered into a computer system. Some make another trip to town and back when queries cannot be answered by telephone. The average contract goes through 200-300 checks before it is finalised.

Insiders reckon the cost for an insurance broker to do business in this unwieldy system is 1.5-3 times that of dealing in comparable contracts in Bermuda, a rival centre for catastrophe risks. No wonder some business is beginning to drift away.

If the threat of competition has at last lit a fire under the remnants of the old boys' club, other forces have also been at work. Official pressure has come both from America, where Eliot Spitzer, the former attorney-general (now governor) of New York, took aim at bid-rigging practices among big insurance brokers several years ago, and London, where the financial-markets regulator has pushed for reform.

In response, a clutch of the leading Lloyd's syndicates (the firms that underwrite policies) started a modernisation movement. Their efforts were helped by the arrival last year of Richard Ward as chief executive of Lloyd's. An outsider, he had helped transform the former International Petroleum Exchange (now part of the ICE Futures exchange) from a member-owned, old-fashioned commodity market into what is now part of a highly successful electronic exchange.

The new chief executive offers an unvarnished view of Lloyd's. “To an outsider, it must seem baffling that

an industry that deals with some of the most complex global risks and contains some of the brightest minds cannot grasp technology and process change," Mr Ward recently told an industry conference. He has put three tasks at the top of his plan for reform: ensuring that all claims are processed electronically by the end of 2007, streamlining the drafting of policies and updating accounting and settlement systems.

Although there has been resistance to change from some members who fear an end to the clubby atmosphere and entrepreneurial spirit of the Room, increasing pressure from big brokers has given reform an extra shove. Also, in an era when capital is highly mobile, investors and brokers have a growing number of options for covering risk. While Lloyd's still has a corner on the most unusual, bespoke policies, up-and-coming financial centres are hungrily eyeing some of its more mainstream business. The stakes for Lloyd's could not be higher.

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Private banking

Sweet success

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Belgium's private banks create a new destination for the jet set

WHICH small western European country is known for its delectable chocolates and wealthy bankers? Switzerland is the obvious answer, but increasingly Belgium is attracting attention for the richness of its banks as well as the sweetness of its pralines. The Belgian private-banking industry is booming. Growth, though from a low level, is far faster than in more famous banking centres such as Switzerland and Luxembourg. According to a recent annual survey of private banking by McKinsey, a firm of international consultants, between 2003 and 2005 the Belgian private-banking market grew by 27% a year, compared with an average of 12% for the rest of Europe.

There is one very obvious reason for the buoyancy of Belgium's private banks. More and more Belgians fall into the elite category that bankers call high-net-worth individuals and everyone else calls millionaires. Guy de Marnix, head of private banking in Belgium at ING, a Dutch bank, says there is more liquidity in the economy, as baby-boomer entrepreneurs are reaching retirement and selling their family businesses. This underlines one important difference from Switzerland. Most Belgian private-banking customers are natives, rather than tax exiles from abroad.

There is a small but lucrative exception to this rule. Several bankers report that they attract French and Dutch clients, who want to shelter under Belgium's favourable tax laws. Unlike France, Belgium has no wealth tax. Thus the mean old joke that the best thing about Belgium is the ease of travelling elsewhere has been reversed, to the benefit of Belgian private banks. The number of foreign clients is small (a few thousand) but they are heartily welcome, because they are usually very rich, with assets exceeding €10m ($13m).

Belgian bankers also give thanks for the helpful changes in the fiscal climate and in banking rules. Frédéric Vandenberghe, a partner at McKinsey, says that the dematerialisation of securities—the switch from paper to electronic forms—has given the banks a substantial boost. He also attributes rapid growth to a 2004 tax amnesty that opened a window for wealthy Belgians to move their money back onshore at attractive rates. Since then, the Belgian government has set up a permanent framework to encourage the repatriation of funds.

Belgian banking is just one part of a bigger European story about the tilting balance between onshore and offshore banking. Squirrelling assets abroad is becoming less attractive for Europe's millionaires. The McKinsey report states that the average annual growth rate has been seven percentage points lower in Europe for offshore money than for onshore money for the past three years.

One banker is optimistic that most of Belgians' offshore billions will eventually return home. He thinks tax harmonisation means that European citizens will pay taxes wherever they hold their money, which strips away the advantage of offshore tax havens. It would be a considerable exaggeration to say that Swiss bankers are clearing out their vaults, especially when the Swiss private-banking industry remains 15 times bigger than Belgium's. Nevertheless, the big Swiss banks are taking notice and have expanded their operations in Belgium in recent years.

All this means that there will be no shortage of banks competing to manage the money of Belgium's millionaires. Life is sweet for the super-rich.

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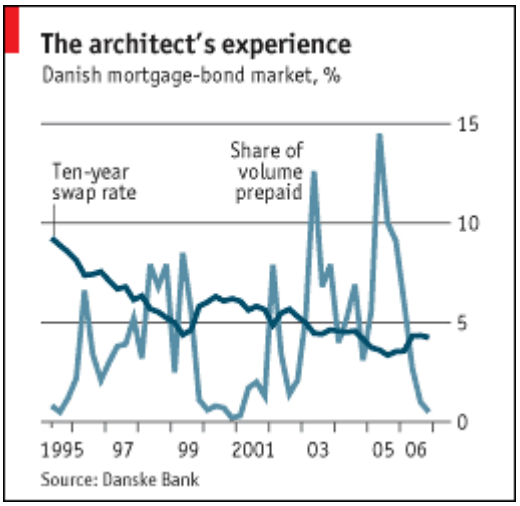
Mortgages

A Danish model in Aztec dress

Jan 4th 2007
From The Economist print edition

One of the world's most robust mortgage systems may be exported to Mexico and other emerging markets



WHEN Felipe Calderón took over from Vicente Fox as Mexico's president last month, he also inherited rapid growth in home ownership and mortgage lending. Mr Fox helped to lay firm foundations for housing finance in order to make cheaper loans available to more Mexicans while providing the country's pension funds with mortgage-backed securities in which to invest. This year Mexico is due to test an intriguing idea that it has imported from Denmark, which has one of the world's best-run mortgage markets. If this idea works in Mexico, it could become a model for other emerging economies.

Danish mortgages—like those in America, but unlike mortgages in other rich countries—make it easy for borrowers to repay their loans early if they wish. The combination of fixed interest rates and an option to prepay helps to shield borrowers from interest-rate risks. If rates rise after they buy a home, they are protected by the fixed interest rate; if rates fall, they can take out a new mortgage at a lower rate and prepay the old one (see chart).

The prepayment option, like bond issuers' options to call some bonds before they mature, saddles the lender with more risk. Forecasting prepayment risk in America, for example, is complicated and requires lots of information about demographics and credit factors, along with plenty of market data. The Danish system is in many ways better than America's, especially as a template for emerging economies. Its mortgages must be financed through the issuing of bonds that adhere to the "balance principle": the maturity and cashflows of the bonds must match those of the underlying loans almost perfectly. The bonds are callable, to reflect the prepayment risk of the underlying mortgages.

Denmark's approach allows mortgage-backed securities to be standardised into large pools, which makes them more liquid and attracts investors. Besides increasing liquidity, standardisation also makes it easier for investors who buy the bonds to forecast and deal with prepayment risk. And the system efficiently separates the business of mortgage lending from the ultimate investors—such as pension funds and insurers—who supply the funds by purchasing the mortgage-backed bonds. Denmark's mortgage lenders compete on their ability to distribute and service the loans, and this specialised competition has helped to drive down costs.

Danish mortgage bonds certainly seem appealing to investors. With DKr 1.6 trillion ($260 billion) outstanding at the end of 2005, the country has the second-biggest market in Europe for mortgage-backed securities, after Germany's *Pfandbrief* market. Measured as a share of GDP, the market is far bigger than Germany's or America's. The Danish system is also more stable in many ways than America's. Although it has held roughly the same form since the late 18th century—it was set up as a way to rebuild rapidly after the Copenhagen fire of 1795—there has never been a default on a Danish mortgage bond.

For all of these reasons, some economists have touted the Danish approach as an ideal model for emerging-market mortgages. Mexico is about to become the first country to give it a try. Its first mortgage-backed security was issued in December 2003, and for several years the government has been

working with private parties to prepare the ground for a system that would imitate the Danish approach. The George Soros Foundation, a non-profit organisation created by the hedge-fund investor of that name, teamed up with Hipotecaria Crédito y Casa, one of Mexico's niche mortgage lenders, or *sofoles*, to set up a company called HiTo, which will create a Danish-style bridge between mortgage lending and the bond market. Another venture, set up by Totalkredit (a big Danish mortgage lender) and VP Securities Services (Denmark's central securities depository), will supply many of the software systems and other infrastructure that HiTo will need.

HiTo got a big boost in November when two other investors took equity stakes in the company. One is Sociedad Hipotecaria Federal, one of Mexico's two state-run mortgage lenders; the other is the Netherlands Development Finance Company (known by its Dutch initials, FMO), which focuses on emerging markets. Remco Polman, FMO's senior investment officer, says that HiTo will issue a few mortgage bonds as a test run in the spring. If all goes well, he says, the system should be fully active by the end of this year.

HiTo's approach has several advantages for an emerging economy such as Mexico. Most important, it should allow borrowers to tap Mexico's developing capital markets more easily, while also helping the country's pension funds, which have long-term liabilities but few attractive long-term, local-currency assets in which to invest. Mr Polman reckons that many of the other emerging economies in which FMO does business could also use such a system. But first, he says, they need to see that it can work in Mexico.

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Economics focus

Shifting sands

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Income volatility is less of a problem than America's Democrats think

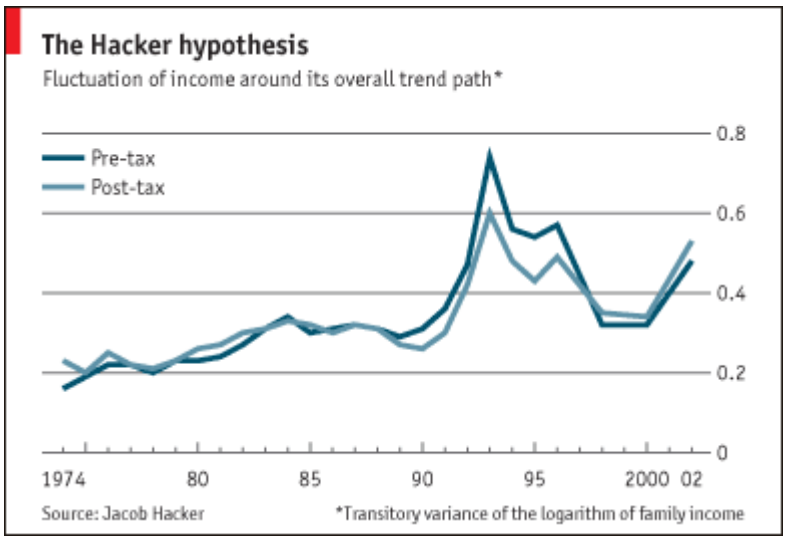
AFTER more than a decade in the wilderness, America's Democrats took control of Congress on January 4th. Their arrival brings a new emphasis on economic policy. The Democrats believe they owe at least part of their election victory last November to voters' worries about financial insecurity. Those fears, it is argued, stem from a double squeeze on America's middle class. Most workers have seen few gains from the recent boom as profits have soared and inequality has widened. Yet their standards of living are more precarious than they used to be, because incomes have become more volatile and the country's social safety net has worn thin.

One of the most influential proponents of this view is Jacob Hacker, a political scientist at Yale, whose recent volume, “The Great Risk Shift”, is becoming something of an intellectual handbook for many on the left. Mr Hacker argues that the defining economic shift of recent times has been the increasing instability facing American families. While income inequality—the gap between the highest and lowest earners—has risen sharply since the 1970s, income instability—the size of short-term income fluctuations—has gone up even more dramatically.

Examining surveys that track the fortunes of individuals over time, Mr Hacker reckons that short-term income volatility is three times higher than it was 30 years ago. On average, he claims, Americans have a 17% chance of seeing their family income drop by more than half from one year to the next, more than double the probability in the 1970s. The painful consequences of this instability are evident in higher bankruptcy rates and the rising numbers of home foreclosures.

According to Mr Hacker, the cause is a politically motivated shift of risk from the government and firms towards ordinary people. From the weakening of unemployment insurance to the demise of defined-benefit pensions, America's Republican politicians and its firms have wriggled out of the country's social contract. Fighting back against this “risk shift” should be the Democrats' priority, and the book suggests how—from health-care reform to a government system of “universal insurance” against sudden income loss. Some of the proposals have merit. But his premises that income volatility is undesirable, that it is excessive and that government (or rather Republican) policies bear much of the blame are, on close inspection, flawed.

For a start, rising instability of incomes is not necessarily a bad thing. A dynamic, mobile society is one in which people's income varies a lot. Milton Friedman pointed out in 1957 that living standards should be affected only by permanent changes in their income. Short-term fluctuations could be smoothed out by borrowing and saving. The fact that household saving rates have plunged in the past three decades does not suggest Americans are terrified by the spectre of more variable incomes. More likely, the increased sophistication of credit markets, particularly the ability to extract equity from housing, has made temporary income instability easier to cope with.



Broader social trends, such as the rise of working women, have also affected the stability of family incomes. Women often take time off to care for children, thus (voluntarily and often temporarily) depressing a family's finances. These type of social shifts make it harder to compare today's typical family income volatility with that of the 1970s.

There is little doubt that Americans' incomes are more variable than they were a generation ago, but the story is a nuanced one. Mr Hacker's statistics are controversial. Peter Gottschalk, of Boston College, and Robert Moffitt, of Johns Hopkins University, were the first economists to disentangle how much of the rise in income inequality was due to long-term changes in earnings and how much to temporary instability. Their most recent report suggests that temporary earnings volatility rose sharply in the 1980s, fell in the 1990s and has risen again in recent years.

Nor is it clear that the social problems Mr Hacker cites, such as rising bankruptcy rates, have much to do with income instability. An analysis by Igor Livshits and James MacGee, of the University of Western Ontario, and Michèle Tertilt, of Stanford University, finds that growing income volatility cannot explain the big rise in the incidence of personal bankruptcy in the past three decades, from 1.4 per 1,000 workers in 1970 to 8.5 in 2002. It had far more to do with a falling cost of bankruptcy.

The consumer society

Instead, the evidence is that most people can cope with temporary income volatility. Although few statistics track changes in individuals' consumption over time, a study by Richard Blundell and Ian Preston, of University College London, and Luigi Pistaferri, of Stanford, compared the information from surveys of income with separate statistics on consumption patterns at different income levels. The economists concluded that, just as theory predicts, most people's consumption varies as permanent income changes, but barely responds to temporary shocks. Only poor people, who are less able to borrow, saw their consumption much affected by temporary changes in income.

And that is despite government policy, not because of it. Some programmes, such as unemployment insurance, have grown less effective. But from the Earned Income Tax Credit (a kind of negative income tax) to the expansion of public health-care schemes for children, America's public safety net has, in many ways, strengthened since the 1970s. George Bush's inclusion of a drug benefit in the public health-care system for retirees was one of the biggest such reinforcements. Government spending may not have assuaged the economic risks poor Americans face, but it has not worsened them. The “Great Risk Shift” is a snappy book title, just as promising workers greater “security” is an appealing political slogan. Unfortunately, neither stands up to much scrutiny.

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Obesity and bacteria

Greedy guts?

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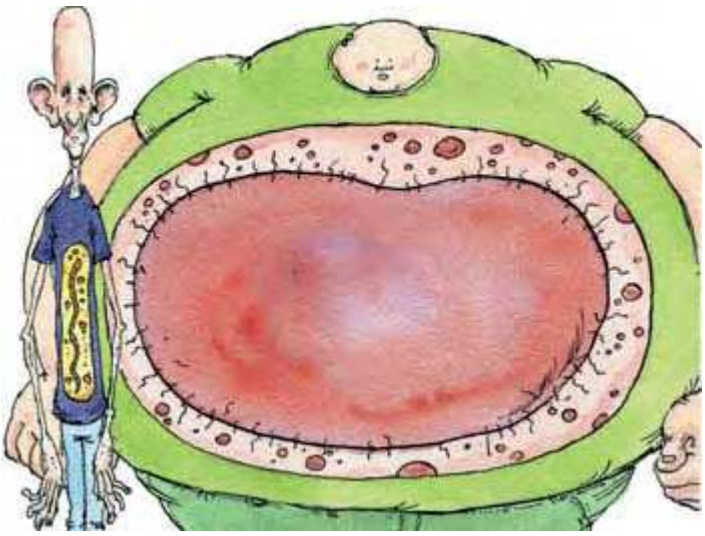
Every week seems to bring a new theory about why people are getting fatter. The latest is that intestinal microbes are partly to blame

David Simonds



ALTHOUGH most people prefer not to think about it, human guts are full of bacteria. And a good thing, too. These intestinal bugs help digestion, and also stop their disease-causing counterparts from invading. In return, their human hosts provide them with a warm place to live and a share of their meals. It is a symbiotic relationship that has worked well for millions of years.

Now it is working rather too well. A group of researchers led by Jeffrey Gordon, of the Washington University School of Medicine, in St Louis, has found that some types of microbes are a lot better than others at providing usable food to their hosts. In the past, when food was scarce, those who harboured such microbes would have been blessed. These days, paradoxically, they are cursed, for the extra food seems to contribute to obesity. Worse still, these once-benign microbes have even subtler effects, regulating the functioning of human genes and inducing the bodies of their hosts to lay down more fat than would otherwise be the case.

Dr Gordon's research is outlined in a paper published in this week's *Proceedings of the National Academy of Sciences* (*PNAS*) and two others published last month in *Nature*. In the *Nature* papers, he and his team reported that obese people have a different mix of gut microbes from that found in lean people—a mix that is more efficient at unlocking energy from the food they consume. Although individuals can harbour up to a thousand different types of microbes, more than 90% of these belong to one or other of two groups, called Bacteroidetes and Firmicutes. The researchers sequenced bacterial DNA from faecal samples taken from volunteers and discovered that those who were obese had a higher proportion of Firmicutes than lean people did.

Bugs in the system

This also turned out to be true in mice, and working with these rodents, the researchers discovered that

the types of Firmicute found in obese animals are more efficient at converting complex polysaccharides (a form of carbohydrate that mammals have a hard time digesting by themselves) into simple, usable sugars such as glucose. In effect, the Firmicutes made more energy available from the same amount of food. The researchers were even able to make mice that had been raised in a germ-free environment fatter or thinner by colonising their guts with microbes from either obese or lean mice.

It sounds simple enough. Unfortunately, further probing showed that the story is a little more complicated, for Dr Gordon did not merely count the gut bacteria of fat and thin people—he then put some of the fat ones on a diet. As these once-obese humans lost weight over the course of a year, their mix of gut microbes changed to reflect their new, svelte status. Why this happened is not clear. It does not seem to have been a result of the composition of the diet, since the effect was the same whether people lost weight with a low-fat diet or a low-carbohydrate diet. Nevertheless, this part of the experiment suggests it is weight that determines gut biodiversity, not the other way round.

The paper published in *PNAS*, though, supports the idea that the bacterial mixture is cause not effect, by adding yet another element to the story. In this study, Dr Gordon took normal mice and germ-free mice, and fed both groups a “Western” diet that was high in fat and sugar. The normal mice gained weight; the germ-free mice stayed lean.

Part of the reason was that the normal mice had microbes that made more useful sugar available. But the researchers looked more closely and found that there was even more going on. By comparing the two kinds of mice, they discovered that the gut microbes in the regular mice were tinkering with their hosts' metabolisms, regulating them in at least two different ways.

First, they suppressed production by the mice's bodies of a substance called fasting-induced adipose factor. This encouraged the mice to store fat. Second, they caused lower levels of another substance, called adenosine monophosphate-activated protein kinase, which made it harder for them to burn fat that they had already accumulated. The upshot is that gut microbes not only release energy from food, they also encourage bodies to store that energy as fat and to keep the fat on.

The practical upshot of this is hard to see at the moment. But if these two suppression mechanisms could, themselves, be suppressed, that might stop people putting on weight. The findings do, however, emphasise how profound the relationship is between people and their gut bacteria. These bacteria can be thought of as an additional digestive organ. Alternatively, humans might view themselves as a sort of collective organism—a human casing surrounding a vast colony of microbes. It is just a pity that this colony is working so hard on behalf of its casing that, in an era when food comes from the supermarket rather than the savannah, the result is rather too good.

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Hypoxia

Medicine at the top of the world

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An expedition to Everest may improve the chances of people in intensive care

LYING in an intensive-care ward is a world away from climbing Everest, but a connection will be drawn this spring when 45 scientists and 208 volunteers tackle the mountain to bring back information about oxygen deprivation. The reason they are going is that hypoxia (a lack of oxygen in cells, which can lead to death) is the one thing that links practically all patients in intensive-care wards—and there is no better place to study it than in the thin air of the world's highest mountain.

AP

How they used to do it

Hypoxia in hospital patients has various causes, from circulation problems to metabolism difficulties. It requires invasive and aggressive treatment. The patient is artificially ventilated, a procedure that can cause inflammation, lung damage and infection. Strong drugs similar to adrenaline are also used, to increase the heart's performance and thus get more oxygen around the body. That risks damaging the heart. So a more elegant way to prevent hypoxia in seriously ill people would be most welcome.

The Xtreme Everest expedition, organised by University College London, hopes to shed light on the problem by testing the theory that a person's ability to handle hypoxia is genetically determined. Although that will not help directly, except perhaps to identify who is likely to need the most powerful (but damaging) remedies and who can be given milder treatment, finding the genes involved will illuminate the relevant biochemistry and thus, with luck, lead to better treatments.

Mike Grocott, the expedition's leader, says that research published a few years ago by his colleague Hugh Montgomery suggests genetic variability may, indeed, be involved. He hopes Xtreme Everest will confirm Dr Montgomery's work by showing that how well a person deals with hypoxia is related to the efficiency with which his cells utilise oxygen—and that this, in turn, is genetically determined.

Although taking more than 250 people up Mount Everest to find the right conditions may, indeed, seem extreme, Dr Grocott says it was the only way. Carrying out experiments on people in intensive care is made difficult by the small numbers of patients on any one ward, the huge variety of conditions from which they suffer and the tricky matter of gaining consent from an unconscious individual. An obvious alternative—hiring all the low-pressure chambers in Britain for several months—would not actually provide sufficient capacity, even if enough volunteers could be found to sit in the chambers.

For an expedition to Everest, though, finding volunteers was not a problem. Lots had to be turned away. Those chosen, who are aged between 18 and 73, will undergo a day of tests at sea level, to establish their metabolic baselines and have their DNA sampled. They will then head for Nepal, armed with masses of equipment to set up mobile laboratories in Kathmandu (altitude 1,400 metres, or 4,600 feet), at 3,400 metres, at 4,200 metres and at the base camp from which expeditions to the summit usually set off (5,300 metres). At this altitude the atmospheric pressure is half that at sea level, and thus delivers half the amount of oxygen per lungful.

The lay volunteers will stop here, but a team of 16 climber-scientists will go on to the south col (just under 8,000 metres) and ten will continue to the summit, at an altitude of 8,848 metres, where the air pressure is just a third of its sea-level value. Once there, they will take the first ever blood samples on Everest's summit.

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Personal data

The logic of privacy

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From The Economist print edition

A new way to think about computing and personal information

PEOPLE do not have secret trolleys at the supermarket, so how can it be a violation of their privacy if a grocer sells their purchasing habits to a marketing firm? If they walk around in public view, what harm can cameras recording their movements cause? A company is paying them to do a job, so why should it not read their e-mails when they are at work?

How, what and why, indeed. Yet, in all these situations, most people feel a sense of unease. The technology for gathering, storing, manipulating and sharing information has become part of the scenery, but there is little guidance on how to resolve the conflicts created by all the personal data now washing around.

A group of computer scientists at Stanford University, led by John Mitchell, has started to address the problem in a novel way. Instead of relying on rigid (and easily programmable) codes of what is and is not acceptable, Dr Mitchell and his colleagues Adam Barth and Anupam Datta have turned to a philosophical theory called contextual integrity. This theory acknowledges that people do not require complete privacy. They will happily share information with others as long as certain social norms are met. Only when these norms are contravened—for example, when your psychiatrist tells the personnel department all about your consultation—has your privacy been invaded. The team think contextual integrity can be used to express the conventions and laws surrounding privacy in the formal vernacular of a computer language.

Contextual integrity, which was developed by Helen Nissenbaum of New York University, relies on four classes of variable. These are the context of a flow of information, the capacities in which the individuals sending and receiving the information are acting, the types of information involved, and what she calls the “principle of transmission”.

It is the fourth of these variables that describes the basis on which information flows. Someone might, for example, receive information under the terms of a commercial exchange, or because he deserves it, or because someone chose to share it with him, or because it came to him as a legal right, or because he promised to keep it secret. These are all examples of transmission principles.

Dr Nissenbaum has been working with Mr Barth to turn these wordy descriptions of the variables of contextual integrity into formal expressions that can be incorporated into computer programs. The tool Mr Barth is employing to effect this transition is linear temporal logic, a system of mathematical logic that can express detailed constraints on the past and the future.

Linear temporal logic is an established discipline. It is, for example, used to test safety-critical systems, such as aeroplane flight controls. The main difference between computer programs based on linear temporal logic and those using other sorts of programming language is that the former describe how the world ought to be, whereas the latter list specific instructions for the computer to carry out in order to achieve a particular end. The former say something like: “If you need milk, you ought eventually to arrive at the shop.” The latter might say: “Check the refrigerator. If there is no milk, get in your car. Start driving. Turn left at the corner. Park. Walk into the shop.”

Dr Mitchell and his team have already written logical formulae that they believe express a number of American privacy laws, including those covering health care, financial institutions and children's activities online. The principles of transmission can be expressed in logical terms by using concepts such as “previously” and “eventually” as a type of mathematical operator. (They are thus acting as the equivalents of the “plus”, “minus”, “multiply” and “divide” signs in that more familiar system of logic

known as arithmetic.) For example, the Gramm-Leach-Bliley act states that “a financial institution may not disclose personal information, unless such financial institution provides or has provided to the consumer a notice.” This is expressed as:

> IF send(financial-institution, third-party, personal-information)
> THEN PREVIOUSLY send(financial-institution, consumer, notification)
> OR EVENTUALLY send(financial-institution, consumer, notification)

According to Dr Nissenbaum, applying contextual integrity to questions of privacy not only results in better handling of those questions, but also helps to pinpoint why new methods of gathering information provoke indignation. In a world where the ability to handle data is rapidly outpacing agreement about how that ability should be used, this alone is surely reason to study it.

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Bats and agriculture

Fear vandals, not vampires

Jan 4th 2007 | AUSTIN, TEXAS
From The Economist print edition

A persecuted creature is good for crops

IN BRAM STOKER'S novel “Dracula”, Lucy Westenra's vampire admirer takes the form of a bat that drinks her blood by night. Alas, Stoker did these reclusive creatures a disservice. There are indeed vampire bats, though they generally prefer cattle blood to that of people. But most of the world's 1,100 species of bats are benign—helpful, even—to humans and especially to farmers.

In Texas, a study is under way to quantify that help. Each spring, millions of free-tailed bats fly from Latin to Anglo America—specifically the south-western United States. This creates “probably the largest aggregation of mammals known anywhere”, according to Thomas Kunz, an ecologist at Boston University and the study's leader. Exactly how large is unknown, but Dr Kunz proposes to find out by counting the migrating bats with an infra-red imaging device.

The reason is that every bat is worth money to Texas's farmers. Far from deflowering virgins—or even spreading rabies—free-tailed bats feast on masses of moths. Corn earworms (also known as cotton bollworms) are a particular scourge. Their larvae gobble up both crops with alacrity. No precise data are yet available for maize, but early results suggest that each bat near a cotton plantation saves about ten bolls (about two cents' worth) a night in mid-June. Over many nights and millions of bats this adds up to a lot of money.

Bats help farmers in other places, too. In Georgia, free-tailed bats provide their services to pecan growers. In Hawaii, hoary bats eat leaf-hoppers, which damage sugarcane. And in California, pallid bats and big brown bats consume large numbers of moths and beetles, to the advantage of the state's vineyard owners. Not surprisingly, farmers in all these places have started putting bat houses on their land, while in Texas bridgebuilders regularly add bat roosts, with properly sized crevices, to woo the creatures.

All of which makes it unfortunate that, at the other end of their migration route, bats are persecuted. Fear of vampires (which, to be fair, do spread rabies to the cattle they attack, and do also sometimes drink from people) leads to indiscriminate slaughter. In Mexico, for example, bat caves are routinely dynamited and their inhabitants poisoned. Perhaps this would stop if another of bats' benefits to mankind were more widely known. Not all bats are insectivores. Some feed at flowers, and thus act as pollinators. In particular, a Mexican plant called agave is often bat-pollinated. Agave is the principal ingredient of tequila. Without bats, then, Mexico's national drink would be harder to make—and that would, indeed, be a tragedy.

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Beatrix Potter

Force of nature

Jan 4th 2007
From The Economist print edition

A Hollywood film and a comprehensive new biography celebrate the spirited nature of the businesswoman and environmentalist who created Peter Rabbit

Beatrix Potter: A Life in Nature
By Linda Lear

St Martin's Press; 592 pages; $30.
Allen Lane; £25

Buy it at
Amazon.com
Amazon.co.uk

Alamy

CHILDREN love Peter Rabbit for his epic naughtiness and lucky escapes, adults for the delicacy with which he is drawn. But one thing that few readers will know about is the vision and determination of his Victorian creator, Beatrix Potter.

Potter grew up, not in the countryside—the scene for so many of her stories about rabbits and squirrels, ducks and frogs—but in London. Her family made their money building the biggest calico printing company in the world, but quickly left their roots behind. As first-generation immigrants to the capital, their social circle was restricted, certainly more so than it would have been if they had remained among their Unitarian relatives in Manchester. And Potter's chances of finding a husband were further reduced by her mother's snobbish insistence that she not marry into “trade”. Only a suitor with inherited land, and preferably also a title, would do.

Like many Victorian parents, the Potters did not believe in female education either, despite young Beatrix's obvious intelligence. With the aid of private tutors, she became fluent in French and German, showed an early talent for drawing which was encouraged by a family friend, Sir John Everett Millais, and eagerly pursued the passion of the day, natural history. She was a frequent visitor to the Natural History Museum near the family home in South Kensington, and devoted much of her time to drawing animals from life, principally her pets, whose antics she liked to turn into illustrated letters to the children of her nanny.

It was two of these, written within the same week in September 1893, that eventually became “The Tale of Peter Rabbit” and “The Tale of Jeremy Fisher”. “I don't know what to write to you,” she told her young pen pal, Noel Moore, whom she knew was sick in bed and needed cheering up, “so I shall tell you a story about four little rabbits whose names were—Flopsy, Mopsy, Cottontail, and Peter.”

The quality of her work is still striking more than a century later. Potter was also possessed of an unusual vision. Contrary to the fashion of the day, she insisted that her books be small and cheap. With her editor, Norman Warne, she paid particular attention to matching the words to the drawings, and ensuring that each detail was as vivid and as well drawn as could be. She was actively involved in the merchandising of her characters—from an early stage there were wallpapers, china tea sets, figurines, a Jemima Puddle-Duck doll and wooden-jointed rabbits. This made her rich and helped create the first of the great children's brands that flourish today, foreshadowing the global profile of Babar, Walt Disney and Harry Potter.

Any satisfaction Potter's parents might have felt at their daughter's achievements was diminished by constant nagging that she preferred her work to caring for them. In an age when filial duty was a point of pride, especially for daughters, this was especially hurtful. Tensions erupted when, at the age of 39, she and Warne became secretly engaged. The two exchanged rings, but were not permitted to make any public announcement, which helped Potter's parents deny the engagement altogether when, just a month after the betrothal, Norman Warne suddenly died of undiagnosed leukaemia.

Potter assuaged her grief by buying a farm—a courageous assertion of personal freedom and emotional independence. The land lay by a lake in the Lake District (pictured above), an area in the north-west of England made famous by the Romantic poets in the early 19th century, and a place where she and her parents had often holidayed. From 1905 on, she divided her life between writing her little books and her country pursuits as a landowner, sheep breeder and environmentalist.

Although she grew increasingly frustrated with the chaotic manner in which Warne's elder brother ran the family firm, her characteristic grit and loyalty showed through when she agreed to produce two books in quick succession after Harold Warne was imprisoned for fraud and the company nearly went under.

Potter's country pursuits took an increasing amount of her attention. When she discovered that the man who had sold her her first farm had charged her twice what he had paid for it just seven weeks earlier, she engaged the services of a local solicitor, William Heelis, to ensure she was never fleeced again. The two were often seen walking the boundaries of prospective properties, peering into farm buildings and inspecting the policies. After seven years, and again in the face of bitter parental disapproval, Potter felt emboldened enough to accept his proposal of marriage. She was 46.

For 30 years more, Potter wrote her books and used her growing wealth to buy land in the Lake District. Her efforts to build up a flock of pedigree Herdwick sheep led her to become a strong supporter of Canon Hardwicke Rawnsley, a priest and activist who was instrumental in launching the movement to preserve the natural beauty of the lakes. At her death, Potter bequeathed all her holdings—14 farms and 4,000 acres of land—to the National Trust, then a highly original legal proposition, also championed by Rawnsley, to preserve the nation's heritage through public ownership. She directed in her will that her ashes should be scattered in a secret place among the hills.

Diligent and humorous, Linda Lear is a good match for her subject, and she never makes the mistake that academics so often make of substituting prurience and a convoluted political correctness for insight and a clear writing style. Single-minded, ironic, resourceful and determined, Potter was far more than just a writer of small children's books. A more modest, intelligent and public-spirited use of wealth would be hard to imagine.

Beatrix Potter: A Life in Nature.
By Linda Lear.
St Martin's Press; 592 pages; $30.

Allen Lane; £25

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A childhood in Scotland

The poetry of remembrance

Jan 4th 2007
From The Economist print edition

VIVID and lyrical, Christopher Rush's memoir of his upbringing in St Monans, a fishing village on the Fife coast, north-east of Edinburgh, is full of the music of the sea, the tang of herring and the overarching power of a feared God.

Born in 1944 to a mother who adored him and a father from whose "stern unloving lips not one drop of affection spilled", Mr Rush, a former teacher of English literature, brings vividly to life the routines of family life, the harshness of herring fishing and the rhythm of the seasons: winter-filled gales ushering in "ice as hard as armour"; the sound of spring "in the peculiar quietness of the air at sunset"; languorous summer days that "threaded our noons with dragonflies and stroked our faces with thistle seeds."

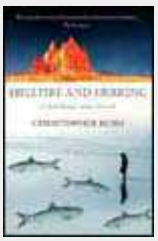
At the heart of Mr Rush's lyricism are his descriptions of the people who influenced him as a boy: his violent drunkard of a father, an "intruder from the open ocean whose ship had gone wrong"; old Leebie, a coil of blue tobacco smoke hanging round her head as she told the child about an ancestor who embalmed the body of Lord Nelson after the battle of Trafalgar; and Mr Rush's grandfather—perhaps the most influential of all, for the flavour of this man of the sea runs throughout the book as certainly as the ebb and flood of the tides.

Here is a loving portrait of a man who lived for fishing, who had "the Bay of Biscay breaking in his eyes", who "spread the black honeycomb of his nets wide on the waters, filled them with the salt sweetness of the sea, lifted them dripping with moonlight and fish. He came back smelling of tar and tangle, saltness and sun, sea winds and Woodbine and bottled beer. Then he lay down in his box bed, and the tides turned him in his sleep, the sea rolling his cigarettes for him as he dreamed and dozed."

"Hellfire and Herring" is a masterly work that enlivens the past with beauty and emotion, yet never sags into soft-focus sentimentality. Instead its realism, and the author's heartfelt candour, make it one of those rare books that successfully evoke the human spirit.

Hellfire and Herring: A Childhood Remembered.
By Christopher Rush.
Profile Books; 308 pages; £15.99

Hellfire and Herring: A Childhood Remembered
By Christopher Rush



Profile Books; 308 pages; £15.99

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Post-war politics

Hijacked by history

Jan 4th 2007
From The Economist print edition

WHAT happens when the leaders of a powerful nation arrive at the end of a long and bloody war and try to give shape to the world beyond it? This question ultimately lies at the heart of two new historical studies, one by Geoffrey Roberts, an associate professor at University College Cork, and the other by Wilson Miscamble, a historian at the University of Notre Dame, Indiana. Both look backward and forward from the bloody fulcrum of 1945 to see how wartime experiences shaped the cold-war world.

Mr Roberts provides the more colourful account. His telling of the basic narratives of the Hitler-Stalin pact, the Nazi betrayal of it and the long gruelling combat on the eastern front is, if familiar, nonetheless highly readable. Where Mr Roberts deviates from the standard is in his assessment of Stalin as a military leader. While admitting that he was a mass murderer, Mr Roberts nonetheless finds a surprising (and not entirely convincing) amount to admire in Stalin's wartime leadership and its consequences for the post-war world.

Mr Roberts sees Stalin as a “very effective and highly successful war leader” who was “indispensable” to the Soviet victory over Nazi Germany. He presents Stalin as a man essentially trying to avoid war. For that reason, he argues, Stalin did not mobilise Russian forces in the summer of 1941, even as his spies relayed worrying portents of the coming German invasion. According to Stalin's logic, the mobilisation would have become a self-fulfilling prophecy, because it would have provoked the Germans into attacking.

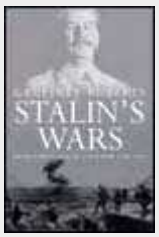
However, once the invasion came, Mr Roberts finds that Stalin learned from his generals and met challenges with skill and flexibility. This new flexibility, forged by near-defeat in war, endured into the peace afterwards, which Mr Roberts sees as a period of “de-Stalinisation”, even though Stalin was still alive. Mr Roberts finds that the West, in failing to take advantage of this to produce some kind of mutually agreed post-war settlement, missed an enormous opportunity.

In its attempt to suggest that wisdom gained in war made compromise with the West possible, “Stalin's Wars” enjoys only limited success. Mr Roberts is indeed right to remind the reader of “the paradoxical truth that Stalin was the dictator who defeated Hitler and helped save the world for democracy.” But saying that Stalin and his nation survived the Nazi invasion neither excuses his failure to prepare for it, nor proves that his wartime leadership had become both successful and flexible as a result of it.

Mr Roberts tries to explain Stalin's shortcomings by saying that “the concept of strategic defence had no place in the doctrinal universe of the Soviet High Command at the time.” True, perhaps; but this was largely a result of Stalin's 1937 decision to execute most of his military brainpower, among them the real Russian strategic genius of the age, Mikhail Tukhachevskii. Leaders who expel knowledgeable subordinates from their circle of advisers should not be surprised when they find themselves ignorant of their country's real needs.

For his part, Mr Miscamble could hardly disagree more with this assessment of Stalin, whom he views as the primary author of the cold war. In his study, Mr Miscamble provides an answer to the riddle of

Stalin's Wars: From World War to Cold War, 1939-1953
By Geoffrey Roberts



Yale University Press; 468 pages; $35 and £25

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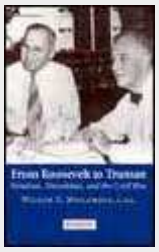
From Roosevelt to Truman: Potsdam, Hiroshima, and the Cold War
By Wilson D. Miscamble



Cambridge University Press; 393 pages; $39 and £30

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whether or not Harry Truman carried out Franklin Delano Roosevelt's wartime plans for peace after the latter's untimely death on April 12th 1945. Truman's foes have long argued that the younger man reversed a predominantly co-operative course—that, had Roosevelt lived, he would have compromised with the Soviet Union and prevented the cold war.

Mr Miscamble dismisses this notion, saying that Truman never self-consciously tried to transform American foreign policy in opposition to Roosevelt's wishes. Rather, international developments after the war—which Roosevelt would have faced with the same result—propelled America on to a haphazard but increasingly hardline course. In reaction to Soviet aggression in eastern Europe, Truman “put to rest Rooseveltian notions that Europe's significance could be reduced and worked instead with a proper understanding of the old continent's true importance.”

Although they are looking at different leaders and arguing from opposite ends of the political spectrum, these two authors end up in the same place. They both tell stories of leaders at the mercy of external events. After the seemingly most dangerous phase of hot war passed, the realities of international tension continued to confound the expectations of even the most powerful. Envisioning a post-war world must be done with humility; if for no other reason than because there is only so much that even a superpower can control.

Stalin's Wars: From World War to Cold War, 1939-1953.
By Geoffrey Roberts.
Yale University Press; 468 pages; $35 and £25

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Cambridge University Press; 393 pages; $39 and £30

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The inefficiency of tidiness

In praise of mess

Jan 4th 2007
From The Economist print edition

Why keeping tidy can be inefficient

THIS book may not change your life. But if you have a tendency to be messy and have already broken your new year resolutions to be neater in future, it will certainly make you feel better about your natural inclinations. Untidiness, hoarding, procrastination and improvisation are not bad habits, the authors argue, but often more sensible than meticulous planning, storage and purging of possessions.

That is because the tidiness lobby counts the benefits of neatness, but not its costs. A rough storage system (important papers close to the keyboard, the rest distributed in loosely related piles on every flat surface) takes very little time to manage. Filing every bit of paper in a precise category, with colour-coded index tabs and a neat system of cross-referencing, will certainly take longer. And by the end, it may not save any time. Your reviewer's office is easily the most untidy in *The Economist* (not entirely his own work, it should be said, thanks to the heroic efforts of his even untidier office-mate). But when it comes to managing information, there seems to be no discernible difference in the end result.

The authors of this book trawl the furthest reaches of psychology, management studies, biology and physics to show why a bit of disorder is good for you. Chiefly, it creates much more room for coincidence and serendipity. Alexander Fleming discovered penicillin because he was notoriously untidy, and didn't clean a petri dish, thus allowing fungal spores to get to work on bacteria. He remarked wryly on visiting a colleague's spotless lab: “no danger of mould here”.

It can also help make sense of things. Hearing depends on random movement of molecules: when they coincide with sounds from outside, they are strong enough to stimulate the inner ear. A bit of background noise on the phone enables our ears to filter out echoes. A slightly mushy photograph can be easier to understand. Music and art depend on mess.

Procrastination makes sense too. America's Marine Corps, the authors repeat (several times), never makes detailed plans in advance. Leaving important things to the last minute reduces the risk of wasting time on things that may ultimately prove not important at all.

The authors are witheringly contemptuous of the bogus equation of tidiness and morality—for example in corporate “clean desk” policies. Disorder and creativity are so closely linked that any employer who penalises the first sacrifices the second, they argue. America's professional organisers, a thriving and lucrative cult of tidiness coaches, are merchants of guilt, not productivity boosters.

It's all fine, up to a point. But the book has two weaknesses. One is that it overstates the case. The case for tidiness in some environments—surgery, a dinner table or income tax returns—is really overwhelming. The other is that the book is a bit repetitive and disorganised. Even readers who love mess in their own lives don't necessarily like it in others.

A Perfect Mess: The Hidden Benefits of Disorder—How Crammed Closets, Cluttered Offices, and On-the-Fly Planning Make the World a Better Place.
By Eric Abrahamson and David H. Freedman.

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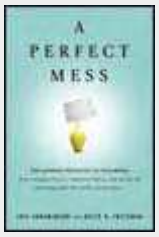

Little, Brown; 327 pages; $25.99.
Weidenfeld & Nicolson; £12.99

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Gerald Ford

Jan 4th 2007
From The Economist print edition

AP

Gerald Rudolph Ford, an accidental president of the United States, died on December 26th, aged 93

THERE were many times in his long life when Gerald Ford felt he had reached the top of the tree. The moment when, puffing out his teenage chest, he was made an Eagle Scout after earning 21 badges (Cooking, Camping, Civics, Lifesaving, Bird Study, First Aid). The afternoon when, his big bland face still running with sweat under his leather cap, he was named most valuable player for Michigan against Minnesota in the 1934 football season. The day in 1948 when he beat Bartel Jonkman, darling of the powerful Dutch Calvinist community, to win the Republican primary for the Grand Rapids congressional seat by nearly 10,000 votes; and the morning when, wearing one black shoe and one brown one, he walked down the aisle with Betty Warren, the prettiest single woman in the city.

The moment he became vice-president of the United States felt somewhat less portentous. Spiro Agnew had resigned in October 1973 after charges of tax evasion; the leaders of Congress had picked Mr Ford to succeed him. There was a telephone call. Mr Ford, after 13 terms as a congressman, had risen to become a popular minority leader in the House, with no ambitions but to be speaker one day if control swung back to the Republicans. Still, as he told Betty, the vice-presidency would make a “nice conclusion” to his career.

It was not the conclusion. The moment he reached the top came on August 9th 1974, when Richard Nixon, worn down by the Watergate scandal, resigned the presidency. Mr Ford, like the rest of America, watched the broadcast on television. Then he went to bed. “My feeling is you might as well get to sleep,” he said later. After becoming the first unelected vice-president, he was now the first unelected president of the United States. He snored happily on.

Mr Ford disliked fuss. His philosophy was to put his head down, work “like hell” and not fret about what might have been. His straightness and squareness made him the antithesis of the wriggling, tormented man he replaced. As he made his inaugural speech in the East Room of the White House—“just a little straight talk among friends”—the very flatness of his Michigan vowels, his stumbles over words, his mistiness whenever he talked about prayers, seemed like a gale of fresh air.

But straightness could also be disconcerting. Americans found that out when, after a month in office, Mr Ford gave Nixon a “full, free and absolute” pardon for anything he might have done while president. All inquiries, charges, rootings through the evidence, rehashings of the past were short-circuited; America would move on. The president's hordes of critics suspected a deal had been done, and certainly one had

been floated by Nixon's chief of staff, Alexander Haig. But Mr Ford had not agreed to it. He had pardoned Nixon—as his speech at the time made clear, and as remarks made public after his death confirmed—both to calm things down, and because he was his friend. Buddies should stick by each other.

On time for dinner

For an average congressman thrust accidentally into power, Mr Ford made a fairly good fist of things. Forces beyond his control helped somewhat. The galloping inflation he inherited was cooled by a mild recession; sky-high energy prices fell gradually of their own accord; Vietnam was definitively lost to the Vietcong, and the last American troops had no option but to leave. The post-Watergate Congress swarmed with cocky, virtuous Democrats, but Mr Ford, an instinctive fiscal conservative, managed to veto most of the spending bills he disliked. He also refused—with a certain pleasure, it seemed at the time—to bail out the bankrupt Democratic city of New York.

He felt proud, looking back, of what he had done to bind up his damaged country. Under him, Nixon's besieged White House became a relaxed and open place, in which a large loping golden retriever shadowed the large loping president, and the powers assumed by the executive branch began to be scaled back again. America, still outraged by the pardon, did not thank him, ejecting him in 1976 in favour of a Georgia peanut farmer. That hurt; for all his diffidence in coming to the job, Mr Ford had grown to like the life of a president, and so had Betty. But he “wasn't going to sit and cry about it”. He would smoke his pipe, write his memoirs, and play golf with Bob Hope.

The curious wondered what made him so very assured in the top job; for, despite all his tumblings on the ski-slopes or down the steps of Air Force One, assured he was. Mr Ford gave pious credit to his mother, who had made him recite Kipling's “If” whenever he got in a temper, and whose rule-of-the-house had been “Tell the truth, work hard, and come to dinner on time.” Cod psychologists noted that Mr Ford revered his paint-seller stepfather and had a soft spot for another Midwestern retailer, Harry Truman; both, perhaps, had inspired him to be decent, conciliatory and industrious.

He himself, in retirement, was still surprised at what he had done. Oddly, he remarked, he had never felt “more secure, more certain of myself”, than when he was in the White House, at the top of the tree. Some might say that he had never had enough imagination to be scared.

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Overview

Jan 4th 2007
From The Economist print edition

The print edition's indicator pages no longer distinguish between developed and emerging economies. They show data for 43 economies, including the euro area, chosen mainly on the basis of GDP and financial-market size, but with some allowance for the quality of statistics and geographical spread. Data no longer on these pages, as well as economic and financial data for 13 more economies, can be found in the box to the right.

German unemployment fell by 108,000 in December, a far sharper reduction than expected. The jobless rate declined to 9.8%, the first time it has been below 10% since September 2002.

America's ratesetters at the Federal Reserve were still worried about inflation when they met in December. According to the minutes of the committee's meeting, published on January 3rd, “all members agreed that the risk that inflation would fail to moderate as desired remained the predominant concern.”

American manufacturing recovered in December, according to the ISM index, which rose from 49.5 in November to 51.4. A reading below 50 indicates contraction; one above 50 shows expansion.

In the **euro area**, a similar survey remained virtually unchanged at 56.5 in December, suggesting that manufacturing growth remains well entrenched. In **Britain**, however, the purchasing managers' index continued to weaken, slipping last month to 51.9, which suggests that the manufacturing recovery is slowing.

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Output, prices and jobs

Jan 4th 2007
From The Economist print edition

Output, prices and jobs

% change on year ago

	Gross domestic product				Industrial production	Consumer prices			Unemployment
	latest	qtr*	2006†	2007†	latest	latest	year ago	2007†	rate‡, %
United States	+3.0 Q3	+2.0	+3.3	+2.2	+3.8 Nov	+2.0 Nov	+3.5	+2.1	4.5 Nov
Japan	+1.6 Q3	+0.8	+2.8	+2.0	+4.8 Nov	+0.3 Nov	–1.0	+0.5	4.0 Nov
China	+10.4 Q3	na	+10.5	+9.4	+14.9 Nov	+1.9 Nov	+1.3	+2.1**	9.1 Q3
Britain	+2.7 Q3	+2.7	+2.6	+2.4	+0.6 Oct	+2.7 Nov	+2.1	+2.1	5.5 Oct††
Canada	+2.5 Q3	+1.7	+2.8	+2.5	–2.4 Oct	+1.4 Nov	+2.0	+2.0	6.3 Nov
Euro area	+2.7 Q3	+2.0	+2.6	+1.9	+3.6 Oct	+1.9 Nov	+2.3	+2.1	7.7 Oct
Austria	+3.2 Q3	+3.6	+2.8	+2.3	+5.7 Oct	+1.6 Nov	+1.6	+1.6	4.7 Dec
Belgium	+3.1 Q3	+2.5	+2.8	+2.0	+7.9 Oct	+1.6 Dec	+2.9	+1.9	12.3 Oct§
France	+1.9 Q3	nil	+2.1	+2.0	+2.3 Oct	+1.4 Nov	+1.6	+1.5	8.7 Nov
Germany	+2.8 Q3	+2.6	+2.4	+1.5	+3.2 Oct	+1.4 Dec	+2.1	+2.2	9.8 Nov
Greece	+4.4 Q3	na	+4.1**	+3.5**	+1.6 Oct	+2.9 Nov	+3.5	+2.8**	8.3 Q3
Italy	+1.7 Q3	+1.1	+1.7	+1.3	+3.7 Oct	+1.8 Nov	+2.2	+1.9	6.8 Q3
Netherlands	+2.7 Q3	+2.8	+2.7	+2.3	+2.1 Oct	+1.0 Nov	+1.8	+1.7	5.4 Nov‡‡
Spain	+3.8 Q3	+3.6	+3.5	+2.9	+7.4 Oct	+2.7 Dec	+3.7	+2.8	8.4 Oct
Czech Republic	+5.8 Q3	+5.6	+6.0	+4.8	+12.8 Oct	+1.5 Nov	+2.4	+3.3	7.0 Q3
Denmark	+3.8 Q3	+2.5	+3.3	+2.3	+5.1 Oct	+1.7 Nov	+2.0	+1.9	4.0 Nov
Hungary	+3.8 Q3	+4.2	+3.7	+2.4	+10.6 Oct	+6.4 Nov	+3.3	+5.9	7.4 Oct
Norway	+2.6 Q3	+5.2	+2.5**	+2.3**	–4.5 Oct	+2.6 Nov	+1.8	+2.6**	3.3 Oct††
Poland	+5.8 Q3	na	+5.3	+4.7	+11.7 Nov	+1.4 Nov	+1.0	+2.5**	14.8 Nov§
Russia	+6.5 Q3	na	+6.7	+6.5	+3.0 Nov	+9.1 Dec	+10.9	+9.2**	6.7 Nov§
Sweden	+4.4 Q3	+4.1	+4.4	+3.2	+2.6 Oct	+1.7 Nov	+0.8	+1.8	4.3 Nov§
Switzerland	+2.4 Q3	+1.5	+2.9	+2.1	+8.2 Q3	+0.6 Dec	+1.0	+1.1	3.1 Nov§
Turkey	+3.4 Q3	na	+5.2	+4.0	+2.5 Oct	+9.9 Nov	+7.6	+8.6**	9.1 Q3§
Australia	+2.2 Q3	+1.2	+2.6	+3.0	–3.0 Q2	+3.9 Q3	+3.0	+2.7	4.6 Nov
Hong Kong	+6.8 Q3	+14.8	+6.0	+5.0	–0.6 Q3	+2.2 Nov	+1.2	+2.5**	4.6 Oct
India	+9.2 Q3	na	+8.3	+7.4	+6.2 Oct	+6.3 Nov	+5.3	+6.1**	4.6 Oct
Indonesia	+5.5 Q3	na	+5.3	+5.8	+6.3 Sep	+6.6 Dec	+17.1	+6.6**	10.3 2005
Malaysia	+5.9 Q3	na	+5.5	+5.2	–0.8 Oct	+3.0 Nov	+3.5	+3.4**	3.1 Q3
Pakistan	+6.6 2006§§	na	+6.2**	+6.6**	+6.8 Sep	+8.1 Nov	+7.9	+7.0**	na
Singapore	+5.9 Q4	+7.6	+7.7	+5.0	+14.7 Nov	+0.5 Nov	+1.0	+1.0**	2.7 Q3
South Korea	+4.6 Q3	+4.4	+4.9	+4.2	+6.3 Nov	+2.2 Nov	+2.4	+2.3**	2.7 Q3
Taiwan	+5.0 Q3	na	+4.1	+3.9	+0.9 Nov	+0.2 Nov	+2.5	+1.5**	3.4 Nov
Thailand	+4.7 Q3	+6.0	+4.3	+4.3	+7.7 Nov	+3.5 Dec	+5.8	+3.6**	1.7 Oct
Argentina	+8.7 Q3	+10.8	+7.9	+6.3	+8.3 Nov	+10.0 Nov	+12.0	+9.8**	10.2 Q3§
Brazil	+3.2 Q3	+1.4	+3.0	+3.3	+4.8 Nov	+3.0 Nov	+6.2	+3.7**	9.5 Nov§
Chile	+2.9 Q3	–0.2	+4.7	+5.3	+3.2 Nov	+2.1 Nov	+3.6	+2.3**	6.6 Nov§‡‡
Colombia	+7.7 Q2	+8.1	+5.1	+4.5	+17.4 Nov	+4.5 Dec	+4.9	+4.2**	11.0 Nov§
Mexico	+4.6 Q3	+4.1	+4.4	+3.2	+4.6 Oct	+4.1 Nov	+2.9	+3.8**	3.6 Nov§
Venezuela	+10.2 Q3	na	+7.8	+5.5	+12.2 Sep	+15.8 Nov	+15.3	+17.0**	10.1 Q2§
Egypt	+5.9 Q1	na	+5.5	+5.4	+4.0 2005	+12.2 Nov	+3.4	+6.5**	11.8 Q1§
Israel	+4.8 Q3	–1.4	+4.2	+4.2	+37.1 Oct	–0.3 Nov	+2.7	+1.7**	8.3 Q3
Saudi Arabia	+5.3 2006**	na	+5.3**	+5.4**	na	+2.7 Oct	+0.9	+2.0**	na
South Africa	+4.5 Q3	+4.7	+4.3	+4.2	+7.5 Oct	+5.4 Nov	+3.4	+5.6**	25.6 Mar§
MORE COUNTRIES Data for the countries below are not provided in printed editions of *The Economist*									
Estonia	+11.6 Q3	+11.7	+10.7**	+8.9**	+4.8 Nov	+4.6 Nov	+3.9	+3.8**	4.2 Oct
Finland	+5.8 Q3	+3.6	+4.5**	+2.7**	+5.4 Nov	+2.1 Nov	+0.8	+1.9**	7.5 Nov
Iceland	+0.8 Q3	+0.4	+3.7**	+0.7**	na	+7.0 Dec	+4.1	+5.4**	1.0 Oct§
Ireland	+7.7 Q3	+10.8	+5.8**	+5.3**	+5.8 Oct	+4.4 Nov	+2.6	+3.4**	4.5 Nov
Latvia	+11.8 Q3	na	+10.8**	+8.0**	+3.9 Oct	+6.4 Nov	+7.4	+5.2**	6.8 Oct
Lithuania	+6.4 Q3	+5.3	+7.3**	+6.5**	na	+4.4 Nov	+2.9	+4.4**	5.7 Oct
Luxembourg	+5.4 Q2	na	+5.5**	+4.3**	–0.4 Sep	+2.0 Nov	+2.5	+1.8**	4.6 Nov§
New Zealand	+1.3 Q3	+1.0	+1.9**	+1.8**	+0.5 Q2	+3.5 Q3	+3.4	+3.0**	3.8 Q3
Peru	+9.8 Oct	na	+6.0	+5.4	+9.4 Oct	+1.5 Nov	+1.1	+2.2**	8.5 Nov§
Philippines	+4.8 Q3	+1.3	+5.5	+5.3	–8.3 Sep	+4.7 Nov	+7.1	+5.1**	8.0 Q3**
Portugal	+1.5 Q3	–0.6	+1.2**	+1.4**	+5.5 Nov	+2.4 Nov	+2.6	na	7.4 Q3§
Slovakia	+9.8 Q3	na	+7.5**	+6.1**	+11.1 Oct	+4.3 Nov	+3.4	na	12.7 Oct
Slovenia	+5.6 Q3	na	+4.5**	+4.0**	+10.7 Oct	+2.3 Nov	+2.1	na	8.9 Oct

*% change on prev qtr, annual rate. †*The Economist* poll. ‡National definitions. §Not seasonally adjusted. **Economist Intelligence Unit estimate/forecast. ††Aug-Oct. ‡‡Sep-Nov. §§Year ending June.

Sources: National statistics offices and central banks; Thomson Datastream; Reuters; Centre for Monitoring Indian Economy

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About sponsorship

The Economist commodity-price index

Jan 4th 2007
From The Economist print edition

The Economist commodity-price index

2000=100

	Dec 19th	Dec 26th	Jan 2nd*	% change on one month	% change on one year
Dollar index					
All items	185.2	186.5	187.0	–0.7	+27.1
Food	153.3	156.7	157.5	+2.4	+18.5
Industrials					
All	226.5	224.9	225.2	–3.3	+36.0
Nfa†	140.2	142.7	147.8	+8.0	+6.3
Metals	273.6	269.8	267.5	–6.2	+48.6
Sterling index					
All items	143.1	144.5	143.8	–0.7	+12.0
Euro index					
All items	130.1	131.3	130.3	–0.4	+14.8
Gold					
$ per oz	620.15	620.97	640.70	–0.4	+21.2
West Texas Intermediate					
$ per barrel	62.70	60.97	60.77	–2.7	–3.7

*Provisional. †Non-food agriculturals.

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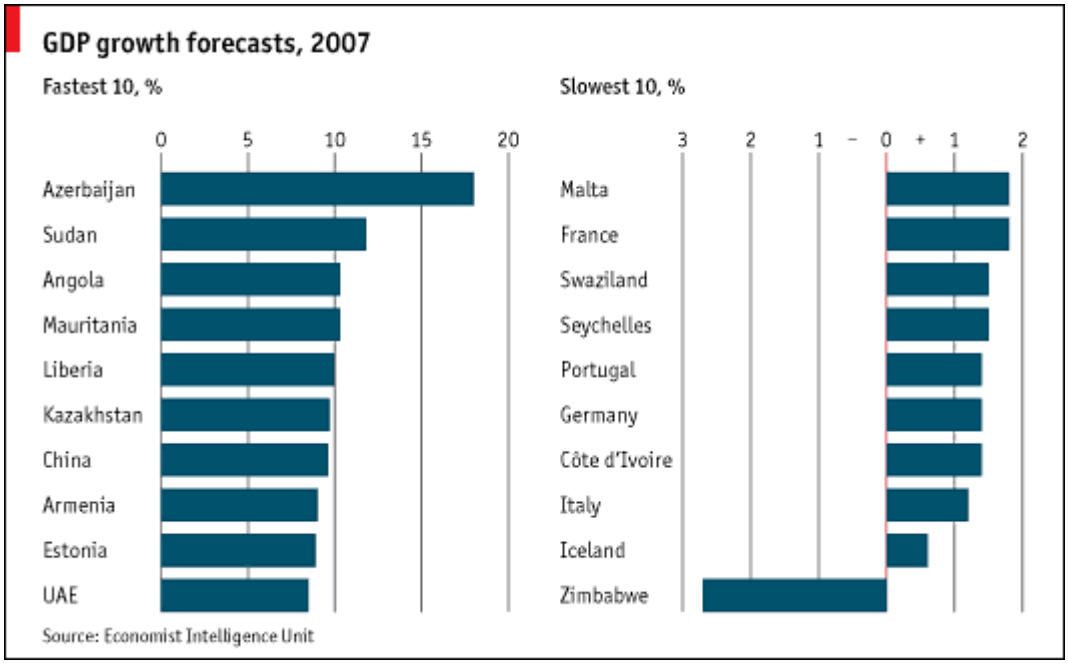
GDP growth forecasts, 2007

Jan 4th 2007
From The Economist print edition



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Trade, exchange rates, budget balances and interest rates

Jan 4th 2007
From The Economist print edition

Trade, exchange rates, budget balances and interest rates

	Trade balance* latest 12 months, $bn	Current-account balance latest 12 months, $bn	Current-account balance % of GDP 2007†	Currency units, per $ Jan 3rd	Currency units, per $ year ago	Budget balance % of GDP 2007‡	Interest rates, % 3-month latest	Interest rates, % 10-year gov't bonds, latest
United States	−842.2 Oct	−880.3 Q3	−6.4	–	–	−2.3	5.24	4.68
Japan	+76.7 Oct	+168.3 Oct	+3.7	119	116	−4.8	0.44	1.68
China	+168.3 Nov	+160.8 2005	+6.7	7.81	8.07	−1.9	3.26	3.06
Britain	−149.4 Oct	−69.7 Q3	−2.7	0.51	0.57	−2.7	5.28	4.75
Canada	+51.6 Oct	+28.9 Q3	+0.6	1.17	1.15	0.7	4.15	4.05
Euro area	−22.9 Oct	−26.7 Oct	−0.1	0.76	0.83	−1.7	3.73	na
Austria	−0.6 Oct	+9.2 Q2	+1.4	0.76	0.83	−1.4	3.73	3.92
Belgium	+15.5 Oct	+6.5 Jun	+2.1	0.76	0.83	0.1	3.78	3.92
France	−36.3 Oct	−42.4 Oct	−1.3	0.76	0.83	−2.5	3.73	3.92
Germany	+194.6 Oct	+114.8 Oct	+3.2	0.76	0.83	−1.7	3.73	3.89
Greece	−41.3 Sep	−27.9 Oct	−7.1†	0.76	0.83	−2.9	3.73	4.18
Italy	−27.7 Oct	−43.5 Oct	−1.9	0.76	0.83	−3.5	3.73	4.12
Netherlands	+38.2 Oct	+63.2 Q3	+6.3	0.76	0.83	0.6	3.73	3.91
Spain	−110.1 Oct	−99.9 Sep	−8.0	0.76	0.83	0.6	3.73	3.93
Czech Republic	+1.8 Oct	−5.2 Q3	−2.7	20.8	24.0	−4.0	2.55	3.70
Denmark	+7.5 Oct	+7.7 Oct	+2.2	5.65	6.17	3.0	3.88	3.87
Hungary	−2.9 Oct	−6.9 Q3	−5.9	191	207	−7.1	8.03	7.23
Norway	+57.8 Nov	+56.0 Q3	+17.6†	6.25	6.57	19.3	3.91	4.28
Poland	−4.2 Oct	−6.3 Oct	−2.3	2.90	3.16	−2.5	4.21	5.14
Russia	+141.2 Oct	+99.5 Q3	+7.3	26.3	28.7	5.9	11.00	6.24
Sweden	+19.7 Nov	+26.2 Q3	+6.1	6.84	7.73	2.4	2.97	3.74
Switzerland	+9.7 Nov	+55.3 Q2	+12.9	1.22	1.28	1.2	2.12	2.46
Turkey	−53.2 Nov	−34.4 Oct	−6.6	1.41	1.34	−2.8	19.74	19.32
Australia	−10.2 Oct	−39.5 Q3	−5.1	1.26	1.34	1.1	6.41	5.90
Hong Kong	−17.3 Nov	+19.2 Q3	+9.3	7.79	7.75	1.1	3.97	3.71
India	−48.8 Nov	−13.7 Q3	−2.2	44.4	44.7	−4.3	7.17	7.67
Indonesia	+38.5 Nov	+4.1 Q2	+1.4	8,970	9,655	−0.9	9.71	6.21§
Malaysia	+28.4 Oct	+22.2 Q3	+11.1	3.51	3.77	−4.1	3.73	5.26§
Pakistan	−12.9 Nov	−6.0 Q3	−5.1†	60.9	59.8	−4.6	10.42	6.45§
Singapore	+35.2 Nov	+39.0 Q3	+25.2	1.53	1.65	0.3	3.41	3.04
South Korea	+16.7 Dec	+6.2 Nov	nil	926	998	0.4	4.87	4.98
Taiwan	+22.0 Nov	+26.3 Q3	+5.0	32.4	32.3	−2.8	1.82	2.09
Thailand	+1.3 Nov	+2.1 Nov	nil	35.6	40.5	−1.2	5.25	5.24
Argentina	+12.0 Nov	+6.7 Q3	+1.6	3.06	3.04	1.4	10.88	na
Brazil	+46.1 Dec	+13.8 Nov	+0.3	2.14	2.31	−2.2	13.19	6.16§
Chile	+21.9 Nov	+5.2 Q3	+2.2	538	515	5.8	5.28	5.30§
Colombia	+0.4 Sep	−2.3 Q3	−2.1	2,218	2,282	−1.5	6.76	6.23§
Mexico	−5.9 Nov	−1.3 Q3	−1.1	10.8	10.6	−0.3	7.01	7.42
Venezuela	+36.8 Q3	+29.7 Q3	+10.1	3,412	2,557	−2.5	10.00	6.55§
Egypt	−11.1 Q2	+3.5 Q2	+1.1	5.71	5.74	−8.0	9.76	5.47§
Israel	−7.6 Oct	+6.7 Q3	+1.5	4.19	4.58	−2.9	4.66	5.15
Saudi Arabia	+125.6 2005	+90.0 2005	+25.7†	3.75	3.75	16.8	4.95	na
South Africa	−9.6 Nov	−13.5 Q3	−4.9	6.91	6.16	−2.0	9.15	7.75
MORE COUNTRIES	Data for the countries below are not provided in printed editions of *The Economist*							
Estonia	−3.0 Sep	−1.9 Oct	−11.1†	11.9	12.9	0.7	3.73	na
Finland	+11.4 Oct	+11.8 Oct	+4.0†	0.76	0.83	0.5	3.73	3.96
Iceland	−1.9 Nov	−3.9 Q3	−13.3†	69.8	61.9	2.1	15.02	na
Ireland	+35.9 Oct	−6.5 Q3	−4.8†	0.76	0.83	0.4	3.73	3.93
Latvia	−4.5 Oct	−3.6 Oct	−14.1†	0.53	0.58	−1.2	3.93	na
Lithuania	−4.7 Oct	−3.0 Oct	−9.5†	2.62	2.86	−0.5	3.79	na
Luxembourg	−5.4 Sep	+4.2 Q2	na	0.76	0.83	−0.9	3.73	na
New Zealand	−4.3 Oct	+6.1 Q3	−8.5†	1.42	1.46	4.1	6.70	5.92
Peru	+8.2 Oct	+1.8 Q3	+0.7	3.19	3.44	0.1	4.50	na
Philippines	−4.0 Oct	+4.3 Jun	+3.1	48.9	52.3	−0.8	6.56	na
Portugal	−23.1 Sep	−16.9 Oct	−7.9†	0.76	0.83	−3.7	3.73	4.08
Slovakia	−3.3 Oct	−5.4 Sep	−5.8†	26.0	31.1	−3.0	4.49	4.35
Slovenia	−1.9 Oct	−0.9 Oct	−2.1†	182	198.2	−0.9	3.60	na

*Merchandise trade only. †*The Economist* poll. ‡Economist Intelligence Unit forecast. §Dollar-denominated bonds.
Sources: National statistics offices and central banks; Thomson Datastream; Reuters; JPMorgan; Bank Leumi le-Israel; Centre for Monitoring Indian Economy; Danske Bank; Hong Kong Monetary Authority; Standard Bank Group; UBS; Westpac

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Markets

Jan 4th 2007
From The Economist print edition

Markets

	Index Jan 3rd	% change on one week	% change on Dec 30th 2005 in local currency	% change on Dec 30th 2005 in $ terms
United States (DJIA)	12,474.5	–0.3	+16.4	+16.4
United States (S&P 500)	1,416.6	–0.7	+13.5	+13.5
United States (NAScomp)	2,423.2	–0.3	+9.9	+9.9
Japan (Nikkei 225)	17,225.8	nil	+6.9	+5.7
Japan (Topix)	1,681.1	+0.2	+1.9	+0.8
China (SSEA)	2,815.1	+5.5	+130.6	+138.4
China (SSEB, $ terms)	130.1	+0.8	+102.9	+109.8
Britain (FTSE 100)	6,319.0	+1.2	+12.5	+27.3
Canada (S&P TSX)	12,701.4	–1.2	+12.7	+12.5
Euro area (FTSE Euro 100)	1,296.8	+1.4	+19.1	+33.2
Euro area (DJ STOXX 50)	4,188.2	+1.3	+17.0	+30.9
Austria (ATX)	4,565.9	+2.5	+24.5	+39.3
Belgium (Bel 20)	4,466.9	+2.4	+25.9	+40.8
France (CAC 40)	5,610.9	+1.3	+19.0	+33.1
Germany (DAX)*	6,691.3	+1.2	+23.7	+38.4
Greece (Athex Comp)	4,491.7	+2.6	+22.6	+37.1
Italy (S&P/MIB)	42,062.0	+1.7	+17.8	+31.8
Netherlands (AEX)	501.4	+0.7	+14.8	+28.4
Spain (Madrid SE)	1,583.7	+1.5	+37.0	+53.2
Czech Republic (PX)	1,617.9	+3.1	+9.8	+29.8
Denmark (OMXCB)	430.0	+1.8	+16.9	+30.9
Hungary (BUX)	24,727.0	+1.5	+19.0	+33.6
Norway (OSEAX)	502.9	+1.1	+33.5	+44.5
Poland (WIG)	51,220.1	+0.9	+43.9	+61.4
Russia (RTS, $ terms)	1,921.9	+2.7	+56.3	+70.7
Sweden (Aff.Gen)	366.5	+0.4	+24.9	+45.3
Switzerland (SMI)	8,920.2	+1.1	+17.6	+26.7
Turkey (ISE)	39,117.5	+1.3	–1.7	–5.6
Australia (All Ord.)	5,626.8	+0.2	+19.5	+29.1
Hong Kong (Hang Seng)	20,413.4	+3.5	+37.2	+36.6
India (BSE)	14,014.9	+1.1	+49.1	+51.3
Indonesia (JSX)	1,834.7	+1.7	+57.8	+73.1
Malaysia (KLSE)	1,117.1	+3.1	+24.2	+33.6
Pakistan (KSE)	10,066.3	+0.3	+5.3	+3.4
Singapore (STI)	3,037.7	+2.6	+29.4	+40.4
South Korea (KOSPI)	1,409.4	–1.1	+2.2	+11.5
Taiwan (TWI)	7,917.3	+2.4	+20.9	+22.5
Thailand (SET)	659.3	–4.2	–7.6	+6.5
Argentina (MERV)	2,097.6	+0.4	+35.9	+34.5
Brazil (BSVP)	44,445.0	–0.2	+32.9	+45.2
Chile (IGPA)	12,450.4	+0.3	+35.2	+28.8
Colombia (IGBC)	11,041.8	–0.6	+16.1	+19.6
Mexico (IPC)	26,619.4	+1.6	+49.5	+47.8
Venezuela (IBC)	53,562.2	+7.9	+162.6	+99.0
Egypt (Hermes)	62,413.3	+3.7	+12.7	+13.3
Israel (TA-100)	949.7	+1.9	+14.7	+26.1
Saudi Arabia (Tadawul)	7,933.3	nil	–52.5	–52.5
South Africa (JSE AS)	24,601.0	–1.3	+35.9	+24.9
Europe (FTSEurofirst 300)	1,502.8	+1.0	+17.8	+31.8
World, dev'd (MSCI)	1,488.6	+0.2	+18.4	+18.4
Emerging markets (MSCI)	920.8	+1.7	+30.3	+30.3
World, all (MSCI)	369.2	+0.3	+19.2	+19.2
World bonds (Citigroup)	658.5	+0.1	+6.1	+6.1
EMBI+ (JPMorgan)	409.8	+0.3	+11.2	+11.2
Hedge funds (HFRX)	1,273.5	+0.1	+9.1	+9.1
Volatility, US (VIX)	12.0	10.6	12.1	(levels)
CDSs, Eur (iTRAXX)†	21.0	–2.3	–42.9	–36.1
CDSs, N Am (CDX)†	29.1	–2.6	–37.0	–37.0
Carbon trading (EU ETS) €	5.22	–19.1	–75.3	–72.4

*Total return index. †Credit-default swap spreads, basis points.
Sources: Stock exchanges; Thomson Datastream; WM/Reuters; Chicago Board Options Exchange; European Energy Exchange (EEX); MarkIt

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Stockmarkets

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Among the stockmarkets we are now covering on this indicator page, China's flourished the most last year, rising by almost 140%. This marked an impressive turnaround from its lacklustre showing in 2004 and 2005 when share prices fell each year. Venezuela, the worst performer in 2005—when share prices fell by more than 30%—also staged a comeback with a gain of nearly 100%. Other oil producers, such as Russia—up by just over 70%—and Indonesia, sparkled. India shone brightly too, with a rise of about 60%. Although stockmarkets in developing economies were the top performers, investors in some advanced economies, such as Spain and Sweden, made handsome gains in dollar terms.

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